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Federal Wage Laws**

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**When A Big Customer
Or Supplier Goes Broke**

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**A 10-Point Checklist
For Making Your
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PHOTO: © ROBERT HOOGMOED

Software publisher Burke Franklin, who says the computer is only a tool and software should be simple, is one of many experts whose ideas can help you upgrade your firm's system. Cover Story, Page 14.



PHOTO: © ROB DASHMIRCH

Entrepreneur Michael Dell's computer firm grew from a college sideline. Lessons Of Leadership, Page 46.

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Washington, D.C.

Editor's Note

Evening The Odds

At *Nation's Business*, we have learned about PCs much the same way most businesses have. As do most offices, we have a mix of IBM-compatibles and Apple Macintosh computers, all on a network. We started with a few IBM PCs for writers, and we grew from there into a network that includes art, circulation, promotion, and production as well as editorial. And we are now exploring yet another upgrade.

We've all gotten used to this exponential growth in the promise of computers. But that brings its own uncertainty: How in the world do you, our readers, keep up with all this?

This month's cover story was designed to help you do just that. It was written by Deputy Editor Ripley Hotch and Senior Editor Al Holzinger, our resident computer editors. Like most of the small-business people they write for, these experts are self-taught, practical users of technology. They try out everything they write about, always from the angle of whether it is useful to a business person trying to get a job done. Both have PCs at home and use them in small businesses of their own.

"These things even the odds for a small business," says Hotch, whose just-published book, *How to Start a Business—and Succeed* (Stackpole Books, 800-READ-NOW), includes several chapters on the value of computers to entrepreneurs. "You can have tools that the biggest businesses couldn't have dreamed of only 20 years ago. The desktop computer is one of the best friends a small-business person can have."

When the two editors started work on this month's cover story, says Holzinger, "we realized that the big issue isn't getting or using a computer, but getting the most out of your investment—how to keep current without going broke. And the question isn't whether you're going to upgrade—because you have to—but how."

And that "how" is just what you'll find in our nuts-and-bolts cover package.



PHOTO: AMANDA BALDWIN

Al Holzinger and Ripley Hotch.



PHOTO: CLEP SKODOPOLSKY-WOODFIN CAMP

Collector Paul Goldin's firm deals in baseball cards and sports memorabilia. Making It, Page 10.

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Robert T. Gray

Robert T. Gray
Editor

Nation's Business

Letters

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To Find The Right Workers, Look In The Right Places

Your February cover story, "Finding The Right Workers," was timely, though it would appear paradoxical in light of the current news of layoffs in some areas.

I have found that one of the best ways to get the right workers is by working with the community college close to the

FINDING THE RIGHT WORKERS

What Small Firms Can Do About The Growing Shortage Of Trained And Trainable Employees



business. These institutions are eager to assist businesses with training and placement.

Harvey McD. Williams
Virginia Beach, Va.

Don't Forget Goodwill

Kudos for mentioning people with disabilities as a source of trained, skilled workers. But you failed to mention North America's largest source for skilled, highly motivated workers with disabilities and other special needs: Goodwill Industries.

In 1989, Goodwill placed nearly 18,000 persons with disabilities and other disadvantages into outside, competitive employment across North America. Businesses can contact their local Goodwill Industries for help in filling their job vacancies.

In this age of labor shortages in many types of jobs, the business community will be glad to find that people with disabilities are a ready and eager work force.

David M. Cooney
Rear Admiral, USN (Ret.)
President & CEO
Goodwill Industries of America
Bethesda, Md.

Pictures Speak, Too

I couldn't help but notice that there was no black male, nor was there a person

with an obvious physical handicap, in the group photograph chosen for the February cover. This was true of all the photographs in the article.

By omitting people representative of these groups, you have implied that their members are not the "right" workers. You should be ashamed of yourselves.

Patricia A. Jackson
New York, N.Y.

[Editor's Note: *Nation's Business* has consistently included minorities—blacks, Hispanics, women, disabled—in its stories and photos, including the February cover photo and the cover story itself.]

Training Starts At Home

Your February cover story says "many of today's young, entry-level workers are not prepared for the workplace." Farther along you cite a decline in the quality of education as a reason for the growing shortage.

I suggest that responsibility belongs at home.

The decline in the quality of education is a decline in our willingness to work, to sacrifice immediate gratification for long-term gains, to tackle long projects without tangible rewards. The failure is in individual families, who have substituted video games for knowledge and interest in the children's activities and development.

Achievers usually excel because of their families, schools, teachers, and values, not in spite of them.

If we wish to have a nation of achievers or at least competent workers, we must find a way to teach values that will support that goal.

Trish Rogatzki
Supported Employment Services
Gillett, Wis.

Recalculating S-Corporation Tax Advantages

In "S Corporations Losing Their Glitter" (For Your Tax File, February), it appears you have not included the taxes on dividends from a regular corporation.

A dollar of S-corporation profits may be taxed at an individual's highest rate, but that's it.

A dollar of C-corporation profits may be taxed at a lower rate than the individual's, but it is once again taxed as you take the dollars from the corporation as dividends.

If you plan to withdraw profits from a company, as is the case in many closely

held small corporations, it is always better for tax purposes to use the S-corporation structure.

*B. James Greenfield, President
Columbia Builders, Inc.
Columbia, Md.*

Modifying The Solutions To Prostate Problems

You have done an excellent review of the management of benign prostatic hypertrophy in "Healing Prostate Pain Without Surgery" [To Your Health, February]. But two solutions offered are still investigational.



Alternatives to surgery are available for some of the prostate problems that affect many men over 50.

The drug Proscar has not been approved by the Food and Drug Administration for general use within the United States. Only patients involved in the clinical trials have access to this drug.

Second, balloon dilation of the prostatic urethra is considered investigational, is not covered by many insurance companies, and is covered only inconsistently by Medicare. Availability is thus limited unless the patient is willing to bear the entire cost of the procedure himself.

*J. Kim Bauriedel, M.D.
Eureka, Calif.*

Luby Admirer: He's No Armand Hammer

Congratulations on Michael Barrier's February story on Luby's Cafeterias ["First In Line At The Cafeteria"]. I can attest to the accuracy and completeness of the article—but you can't compare Rob Luby to Armand Hammer.

Had Luby emulated Hammer, he would have burdened the company with heavy debt and extravagant symbols of corporate success and diversified into disparate areas, and a pedestrian price/

earnings ratio would have been bestowed on the stock.

Both Luby and Sam Walton resisted the temptation to build empires; they built their immensely successful companies by extraordinary management and leadership abilities.

*Sherman P. Macdaniel
Anderson, Cheneviere & Co.
Houston*

Front-Wheel Drive Is Less Than It Seems

I was astonished at your comment that front-wheel drive has better traction than rear-wheel drive [It's Your Money, February]. Knowledgeable engineers agree that the only time front-wheel drive has superior traction is while traveling at a constant speed in a straight line in unbroken snow.

*Paul Albert
Villa Park, Ill.*

Advocate A Responsible National Energy Policy

I recently started reading *Nation's Business* and find it well written. I was irritated, however, to see you advocate oil drilling in the Arctic National Wildlife Refuge [Congressional Alert, February]. To say that two decades of "environmentally safe oil exploration" have taken place in Prudhoe Bay is irresponsible.

I think it would be in the nation's best interest if leading business publications such as yours would advocate a serious national energy plan, with an emphasis on alternate energy sources and conservation. We have hardly touched the tremendous potential of new energy technologies—which not only would lessen dependence on Middle Eastern oil but also would lead to the formation of many new businesses.

*Scott Grimshaw
Auburn, N.Y.*

[Editor's Note: An editorial in our October issue advocated an energy policy based on both conservation and an increase in supplies "compatible with sound environmental policies." While development of alternative energy sources would lead to the formation of businesses, the nation also needs new domestic supplies of oil, and we think exploration in ANWR can be done safely.]

Send letters to Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

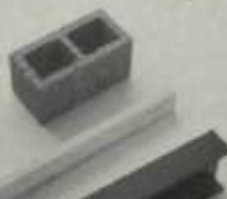
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Faithful Reminders

By Lee T. Christiansen

For some years I've been a teacher and a building contractor in northwest Wyoming. When I began exploring the medical-devices industry a few years ago, I wasn't intending to start another business. I was only trying to find a device to help my mother-in-law take her medicine at the prescribed times.

Grandma, as we called her, was of strong Mormon pioneer stock, a self-reliant woman who, as a child, had moved from Idaho to Wyoming's Big Horn Basin in a covered wagon in 1893. But 90 years later, she was ill and sometimes forgetful, and she had trouble remembering her medication. Twice she ended up in the emergency room after she had risen from a nap, thought it was the next day, and had taken her pills a second time. My wife, Gayle, and I feared that unless we could find a way for Grandma to keep to her prescription schedule, we would have to put her into a nursing home.

I began searching for a pill dispenser that would hold Grandma's weekly supply of medication and dispense it according to a fixed schedule. Although I had never seen such a device, I believed there had to be one out there somewhere that just hadn't made its way here to Meeteetse (population 359). I thought it would cost a few hundred dollars.

I called medical-equipment suppliers all over the country. None knew of any such machine, yet most said they had received requests similar to mine. I concluded that no such device existed but there was an untapped market for one.

A slowdown in construction left me with time on my hands, so in 1987 I set out to make my own pill dispenser. I had the help of two of my five sons, Rob and Philip, both electrical-engineering students at DeVry Institute of Technology in Phoenix.

My first effort looked something like a carousel slide projector. It operated with a timer from a Kenmore dryer, causing pills to fall into a cuplike drawer at set times. But it was cumbersome, and we soon improved on it. Our big breakthrough, which I had patented, was its dispensing belt—the first belt designed to mete out substances through a hole. The belt is now controlled with a microcomputer.

We called the device "CompuMed," short for computerized medication. There was no other product available for home or institutional use that automatically dispensed the proper vitamins or medication at the correct times and in the proper doses. There were plenty of good reminders, organizers, and



PHOTO: ©BRUCE MCCORMACK

Dispensing help: Lee T. Christiansen.

timers on the market, but there was nothing that dispensed multiple pills from a locked device and sounded an alarm.

Every step in the process of setting CompuMed is displayed on a screen on the device. At alarm times, the prescribed quantities of medication are dispensed into the cuplike drawer. Instructions such as "take with plenty of liquid" or "take with food" appear on the screen. The pulsating audio alarm or, for patients who prefer it, the flashing light can be turned off only by opening the drawer and closing it again.

Some months after I developed the dispenser, a company offered to buy my patent for \$175,000. I had \$12,000 of my own money invested in it, so the offer was tempting, but I declined. I heard Wyoming's Gov. Mike Sullivan speak of the need to diversify businesses in the state. His address convinced me to stick with my business.

The governor set up a program to help fund new entrepreneurs, and that gave us our first financial break. Wyoming's Economic Development and Stabilization Board gave our company, CompuMed, \$25,000 for a marketing-feasibility study by a top independent consultant. The report was staggering; it said that by the fourth year, sales could top \$500 million.

According to the study, 40 percent of all admissions to long-term-care centers such as nursing homes come about because elderly people have trouble taking their medicine on time. Clearly, we were on to something. The market was huge.

I should have been elated, but instead I was overwhelmed. I'm a schoolteacher and a bricklayer. To suddenly face this type of business challenge was difficult, to say the least.

About this time, my nephew Steve Christiansen came for a visit from Southern California. Steve has degrees in business and law and was interested enough in my venture to start working with me.

Steve helped me formulate a business plan and prospectus for investors. We raised \$365,000 in seed money and obtained \$892,000 in low-interest economic-development loans. We're now selling our second private stock offering. Steve has become executive vice president of our company.

CompuMed is now hiring sales representatives. The biggest hurdle before us is obtaining exposure. We've shown the dispenser at pharmaceutical and health-care trade shows, and we have advertised in magazines. Our theme is, "Never forget your medication again."

Our sales are promising. We've sold 200 units at \$369 each, which is more than we had projected for the first two months of sales.

We're definitely stoked up for the challenge of building our company. We have only seven employees now, but we are planning for up to 100. And I plan to keep CompuMed in Meeteetse.

Lee T. Christiansen is president of CompuMed, Inc., 1 Pitchfork Road, Meeteetse, Wyo. 82433; 1-800-722-4417.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to *Entrepreneur's Notebook*. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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Managing Your Small Business

Previewing a new location, building value, redrawing relationships, finding profits.

By Bradford McKee

PLANNING

Bringing A New Town To The Company

A major expense in moving a business operation to another town is travel for employees to see the new location and



PHOTO: BOUS WILSON-BLACK STAR

decide if they want to follow their jobs. One way to cut such costs is to bring the new town to the employees—on videotape. That's the suggestion of Nancy McCormick, president of a relocation-

services association based in Chicago. Her organization, RELQ, offers clients the videotape service for their employees.

Salmon Bay Steel Corp. took advantage of videotape tours when it moved about 100 employees from San Francisco to Seattle. Rather than send employees to Seattle right away, Salmon Bay Steel first asked Shirley Hoag, a broker with Benton's Realty Inc., in Seattle, to provide the relocating workers with videotapes. Employees took the tapes home to preview the new town with family members. Hoag says the steel firm is saving thousands of dollars of travel costs as a result.

A firm may use videotapes to replace employee scouting trips altogether. Or it may use tapes to give employees a preliminary look at the new site; some might then decide whether to make the move, while others might defer a decision until after a personal visit to the new location.

The potential for the tape approach could be substantial. Runzheimer International, a Rochester, Wis., travel and relocation consulting firm, finds that just over three-fifths of firms that relocate their workers send the employees

Moving En Masse

Percentages of employers who cover the following expenses for group moves:

Shipment of household goods	98%
Disposal of former residence	85%
Pre-move orientation trips	63%
Spouse re-employment assistance	43%
Cost-of-living adjustment	33%

Source: Runzheimer International survey of 173 relocation professionals.

on exploration trips to the new city.

Real-estate broker Sylvia Ehrlich of Chappaqua, N.Y., says video previews also can help make employees' house-hunting trips "very productive."

RETAILING

Supplier And Retailer: A Working Combination

Competitive pressures from mass marketers are forcing smaller, independent retailers to adopt more advanced sales techniques. "The rules are changing" in supplier-retailer relationships, says supplier Bert Dorazio, Midwest business manager for Purina Mills Inc., in Pittsburgh. Suppliers like retailers who offer "the perception of a high variety of low-margin products," he says, emphasizing "perception." The pet-supply stores he cites don't sell pet food much more cheaply than grocery stores, he says, but their added variety and expertise give the feeling of greater value.

Part of this "added value" is customer involvement, says Dorazio. The more prosperous retailers, he says, stage "events the consumer can participate in" such as pet photo contests, on-the-spot grooming, in-store obedience training, and visits by veterinarians who help customers with questions.

Also, for a good partnership, retailers should be good customers, says George Whalin, president of Retail Management Consultants Inc., in Chicago. This means paying bills on time and respecting time limits on returned merchandise.

OWNERSHIP

How To Build Value In Service Companies

If you're selling a service-based company soon, make it distinctive. Keep in mind that buyers prefer a firm that shows a signature on its service, a "well recognized name" in its markets, and exclusive market tools such as proprietary accounting systems or client networks, says Joseph Furlong, with the investment firm Robertson Stephens & Co., in San Francisco.

Ronald Speyer, president of Geneva Capital Markets, in Irvine, Calif., says those who buy a company for strategic

purposes want service firms with solid employee-training systems.

Top service requires consistent training at all company levels, Speyer says. Customer-support and quality-support systems add a lot of value to a business, he adds.

A firm's service need not be unique for the firm to sell at a good price, says Richard Tadler of TA Associates, an investment firm in Boston.

Even an ordinary service firm can command an appealing price when it is sold, Tadler says, if it has an especially efficient means of satisfying its customers.

PROFITS

Track Costs To See Where Profits Lie

If you sell several products, you should try to determine how each affects earnings. Failing to allocate overhead costs to individual products, for example, can mask inefficiency, pricing errors, or excessive overhead, according to David Wolfe and Shirley Cheramy, consultants at the accounting firm of Price Waterhouse.

Many smaller firms base profit/loss calculations on the combined perfor-

mance of all their products. Wolfe and Cheramy suggest that you set up accounting methods that "isolate" costs and revenues for specific products, time spans, and sales regions.

Cheramy adds that if you stop selling an unprofitable product, for example, you should allocate operating costs evenly back to the products that you still have on your shelves.

Simply dropping one of five products doesn't cut overhead 20 percent, she says, because such costs as heating the warehouse remain the same.

Dateline: Washington

Business news in brief from the nation's capital.

By Mary McElveen

JOB DISCRIMINATION

Proposals Differ On Quotas, Damages

Another heated debate over proposed rules to curb job discrimination, an issue of major concern to business in the last Congress, is expected soon.

Business waged a major lobbying drive last year against such bills in the House and the Senate, but it took a presidential veto, sustained by only one vote in the Senate, to stop the legislation.

President Bush and business objected to the measure because it would have resulted in hiring quotas and excessive litigation, they said.

Rep. Jack Brooks, D-Texas, has introduced similar legislation this year in the House, and Sen. Edward M. Kennedy, D-Mass., is expected to introduce a comparable bill soon in the Senate.

Meanwhile, Sen. Alan K. Simpson, R-Wyo., has introduced a job-discrimination bill that addresses most of the concerns that business had with the earlier bills. Simpson's bill would limit damages in cases of job discrimination, while the earlier bills permitted unlimited punitive and compensatory damages.

The Simpson measure would also avoid any mandates that would encourage quotas in hiring.

President Bush is expected to push hard for legislation he can sign this year to keep job discrimination from becoming a presidential-election issue in 1992.



PHOTO: T. MICHAEL KEZIA

Sen. Alan Simpson's job-discrimination bill would limit damages.

He has said he wants to sign a bill but is dead set against legislation that would result in quotas.

At issue in the debate are several Supreme Court rulings handed down in recent years on job discrimination.

mandates on worker benefits.

A new survey by Penn and Schoen Associates, Inc., a consulting firm, found that 89 percent of the public believes employee benefits should be determined by employers and employees, not mandated by the federal government.

TRADE

Conference To Focus On Asia-Pacific Trade

A one-day conference on doing business in the Asia-Pacific region is scheduled for June 19 in Washington. Sponsored by the U.S. Chamber of Commerce and the Asia-Pacific Council of American Chambers of Commerce, the program will feature American business executives representing the American cham-

LABOR

Strike-Bill Veto Threat Encourages Business

Business received encouraging words from the administration on legislation that would eliminate the right of employers to replace workers who walk off the job for economic reasons, such as differences over wages and benefits.

Labor Secretary Lynn Martin said senior administration officials would urge President Bush to veto the bill if Congress passes it.

That statement was particularly significant because the Democratic-controlled Congress has been unable to override any of the 21 vetoes that the president has issued since taking office.

Business and labor organizations are locked in a major confrontation over the measure, which is moving quickly in the House. The legislation's future is more uncertain in the Senate.

Business says the bill threatens the delicate balance between employer and employee rights.

THE PERSIAN GULF

Information Available On Rebuilding Kuwait

With Kuwait having been liberated—largely through the efforts of the U.S. military—it is expected that U.S. businesses will prove vital to the efforts to rebuild and resupply the war-ravaged emirate. Revitalizing Kuwait will cost more than \$100 billion over five years, according to some estimates.

Information on how U.S. businesses can participate in the rebuilding is available from the U.S. Small Business Administration, 800-827-5722; the U.S. Army Corps of Engineers, (703) 665-3683; and the U.S. Department of Commerce, (202) 377-5767.

BENEFITS

Congressional Drive On Parental Leave

The House is moving quickly on a bill to require employers to provide their workers with up to 12 weeks of job-protected family and medical leave each year.

Workers could use the leave for their own illnesses or for the birth, adoption, or serious illness of a child, parent, or spouse.

Democratic leaders in the House and the Senate have made the legislation a top priority. Proponents are pushing for votes by the full House and Senate before Mother's Day, May 12.

The congressional drive for a leave bill is continuing despite surveys showing broad public opposition to government

bers in Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, China, Singapore, and Thailand.

The executives will share their experiences in the region and offer practical tips on pursuing market opportunities, locating prime investment possibilities, and assessing the political and economic realities in each country.

For more information, call Marnie J. Merovitz at (202) 463-5471.

Making It

Growing businesses share their experiences in creating and marketing new products and services.



PHOTO: ©LEIF SKOGGERS—WOODFIRE CAMP

Thanks To This Firm, Some Ballplayers Get Sore Arms From Swinging Pens, Not Bats

In a back-room warehouse in Cherry Hill, N.J., four teenagers arrange hundreds of baseball bats on a long folding table. A balding man, pen in hand, scribbles something on each bat and hands it to one of the teens, who reverently places it in a cardboard box.

Take a closer look. That balding man is Reggie Jackson, the sixth most prodigious home-run hitter in major-league history. "Mr. October"—he was a post-season power hitter—is signing bat after bat, instantly turning a \$15 hunk of wood into a keepsake that retails for \$150. "I'm one of the best signers around," Jackson boasts. "I can finish 2,500 or 3,000 before my hand gets tired."

For his five-hour, finger-cramping effort, Jackson will receive a paycheck in the thousands. Gladly paying that fee is Paul Goldin, chairman and chief executive officer of The Score Board, Inc., the first publicly traded firm specializing in sports collectibles and memorabilia.

To Goldin, 58, investing in Reggie Jackson keepsakes is like investing in, say, pork bellies, although there is little chance that Goldin's commodity will drop in value. While the stock market zoomed and plunged through the 1980s, the value of famous baseball players' rookie cards rose steadily, more than 40 percent a year. Autographs, once sought only by starry-eyed kids, are now bought, sold, and traded by white-collar investors. Overall, sports memorabilia is estimated by Wall Street analysts to be a \$4-billion-a-year industry, supported by 4 million hard-core collectors.

All of this has given Score Board's stock the upside trajectory of a Bo Jackson homer. Since first being offered as a risky penny stock on the NASDAQ exchange in September 1986, Score Board has more than doubled its revenues annually—for the fiscal year that ended Jan. 31, revenues reached an estimated \$32 million.

It all started with a hobby. Ken Gol-

When Paul Goldin, left, saw son Ken's baseball cards, his nostalgic feelings led to the creation of a \$32 million sports-memorabilia business.

din, now 25 and the company's executive vice president, began collecting baseball cards in the early 1970s. That rekindled memories for Paul Goldin, as well as regret that he—like almost everyone else—had lost his old shoebox of cards decades earlier.

So father and son began advertising to buy other collectors' long-held stocks of cardboard icons. By 1980, just before the boom in sports collectibles, they had spent close to \$200,000 to amass an inventory of 5 million cards.

For several years they sold their wares at weekend sports-card shows and through mail-order catalogs. Eventually, Paul Goldin, then an associate professor of statistics at Drexel University in Philadelphia, noticed a trend: With the number of collectors growing, it was becoming increasingly difficult to get the most-desired cards. And people were willing to pay progressively higher

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MAKING IT

prices for those cards, even brand-new ones. "There was room in the business, I figured, for someone who could supply dealers with large quantities of the best players," Goldin says. "An idea was born."

The idea was a publicly traded firm that would buy millions of cards directly from the manufacturers and then sort and repackage them for sale to consumers and dealers. A dealer needing, say, 2,000 cards of Seattle Mariners phenom Ken Griffey Jr. can call Score Board and buy them at a wholesale price. Most of the cards, with little market value to collectors, are rebundled into so-called "starter kits" and sold at cut-rate prices at major retail outlets.

Score Board quickly became the nation's largest independent dealer of baseball cards. But Goldin saw an opportunity to diversify. "The bigger the

sports-collectibles industry got, the more items people were looking for," he says. "So we decided to manufacture our own." These days, the company produces three kinds of items:

■ **Trading cards.** Goldin signed a licensing agreement with the Worldwide Wrestling Federation to print cards featuring grapplers such as Hulk Hogan and Andre the Giant. So far, the company has shipped 350 million cards.

■ **Games.** Score Board's Classic Games division has a license with major-league baseball to manufacture a trivia game that comes with a spinner, game board, and 50 player cards; it retails for \$10 to \$15.

■ **Signed memorabilia.** Score Board has exclusive contracts with dozens of athletes, from baseball's Roger Clemens to hockey's Wayne Gretzky to retired legend Mickey Mantle. The players sign

their names on thousands of balls, uniforms, plaques, anything Goldin thinks will sell. The items are then sold through home-shopping services on TV or through mail-order catalogs.

"I know some people believe that the memorabilia market is cresting," says Goldin, "but I believe that it's just becoming more of a buyer's market."

As Goldin speaks, Reggie Jackson continues to toil away in the back room. And an employee enters Goldin's office to report that he is on his way to New York with a check and 1,100 balls for slugger Darryl Strawberry to sign. The employee also has a request: Strawberry's agent has asked for a gift of 12 balls autographed by Nolan Ryan.

"This is why the market won't dry up," Goldin laughs. "Everybody wants into the game."

—Glen Macnow

A Professional Day-Care Solution

When Sandra Shrader confronted the working mother's dilemma, day care for her 6-month-old daughter, she insisted on more than just a glorified baby sitter. Shrader demanded a day-care center with teachers who had certificates in preschool education and who could stimulate young Laura and help her grow both intellectually and socially. The facility had to be clean and the food nutritious, and Shrader needed a center located close to the downtown Dallas offices of the national accounting firm where she was a manager.

No such facility existed.

To meet what she saw as a pressing need, Shrader resolved to create the kind of center she sought for her own youngster. She found a willing partner in Sue Zuber, a certified public accountant who, at the time, was chief financial officer for the 350-store Zale's retail chain. Together, the two women founded a company they called Cradle To Crayons Child Development Centers.

Since 1987, when they left their jobs and opened a center on the ground floor of a parking garage in Dallas' trendy West End, Cradle to Crayons has been cited by Texas licensing officials as a model for the industry. Enrollment at that center has reached capacity, 290 children, despite rates as high as \$145 a week (rates vary according to the age of

the child—the younger the child, the higher the rate). The center's revenues have rocketed to \$2 million a year.

In addition to operating their own center, Shrader, 36, and Zuber, 44, are now in demand for their expertise by corporations and developers considering

fied manufacturing corporation, have contracted with the two entrepreneurs to design and operate facilities for employees and tenants.

Trammell Crow Co., the nation's largest privately owned developer, pays them to operate a center that the company opened several years ago. Other large organizations have hired them as consultants.

Says Zuber: "People used to preach corporate day care as a moral issue, but it's not a moral issue. It's a dollars-and-cents issue. Companies find that workers are more productive when they don't have to worry about how their children are cared for. And a good child-care facility helps attract and retain good employees."

Adds Shrader: "In Dallas, where we have more office space than there are tenants to fill it, developers are looking for anything that will help make their buildings attractive."

Quality should be the first consideration, Shrader and Zuber insist, and their standards are high. In their own center, and in the three others they operate, the two

employ only experienced day-care workers with two- or four-year degrees in early childhood development. Staff-to-child ratios average about 1-to-9, far better than the 1-to-22 ratio required by the state.

"We understand our parents," says Zuber. "We know what they are up against. Like them, we are professional people who care deeply about children."

—Dennis Holder



PHOTO: CHOLLY KUPER

The well-being of young clients like Andrew Young and Jennifer Seckle, both 4, comes first to Sandra Shrader, left, and Sue Zuber.

day care as an employee benefit or as an incentive for prospective office-building tenants.

Southland Corp., owner of 7-Eleven stores, and Trinity Industries, a diversi-



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Upgrade For Growth

By Albert G. Holzinger and Ripley Hotch



PHOTO: T. MICHAEL KEZA

Robert Rothman's desktop publishing package saved his company enough in the first year to pay for the equipment.

If you are a typical small-business person, you have some personal computers, a printer or two, perhaps a modem. Everything works. But some questions are probably nagging at you: Are you falling behind in technology? Is there hardware or software that would make you more productive? How do you choose? When do you upgrade?

The best advice of the many users, vendors, and consultants interviewed by *Nation's Business* is summed up by Rick Kreysar, vice president of marketing for Computer Associates, the largest independent software vendor in the world: "You look at your business. When your business makes a large change, you're probably going to have to change the way you do business, and therefore your computing product. But if the business doesn't change, then keep running the same thing."

But even if your business does not change, your competition may, says Chuck Stegman, director of systems marketing for computer retailer Businessland. "If your competitors are changing and you're not, by the time you find out, it may be too late." Improving technology can improve your competitiveness.

Every buyer fears getting the last copy of an old model, just before a newer, better, cheaper one comes out. "One of the problems you always face in trying to buy any computer is that you know it's going to be obsolete the minute you buy it," says Lawrence Wolfe, who works with the defense technology research division of GRC International, a Vienna, Va., consulting firm with a varied mix of machines.

"It is wrenching to people to make a buy knowing that two or three years from now they will be able to buy a more powerful machine for the same price," says Howard Elias, vice president of computer merchandising for Ra-

dio Shack. "But that doesn't matter because you've gotten three years' use from it."

Businesses are increasingly interested in upgrades that build inexpensively on less than state-of-the-art technology. But upgrading intelligently requires you to look first at what you want to accomplish, and only then at the hardware.

Robert Rothman, marketing manager for Harbor Linen, in Cherry Hill, N.J., a 125-employee distributor of linen to hospitals and hotels nationwide, recently realized substantial savings on his company's printing costs. He turned to desktop publishing to create the sales letters the company's 25 salespeople mailed frequently to customers, instead of contracting the work out to a graphics service firm.

Rothman tried and discarded two low-cost packages before he settled last summer on Express Publisher 2.0. (Power Up Software Corp.). "I've fallen in love with this \$160 package," he says.

Often, however, new software requires

Contributing Editor Jon Pepper and free-lance writer Mel Mandell also contributed to this report.

Upgrading can improve productivity dramatically. With these 10 ideas, you can stay ahead without going broke.

more powerful hardware. At first Rothman did the work on an old Commodore PC-10, which he had previously used only for word processing. But the machine was too slow for desktop publishing, prompting him to acquire a new-generation, high-speed IBM-compatible. The master sales letters were printed out on a Panasonic KXP-1124 dot-matrix printer, but Rothman has since upgraded to a Hewlett-Packard LaserJet series printer. The letters are duplicated in quantities of 300 to 1,000 each by the same offset printing firm Rothman used before. By switching to desktop publishing, Rothman realizes savings of \$5,000 a year and has gained faster turnaround for changes.

Computer users often fall victim to the same bug as buyers of fast cars: They want the latest, fastest, biggest. "People shouldn't become too enamored of the system," says Burke Franklin, president of Jian, a publisher of business software in Los Altos, Calif. "I used to enjoy working on my car, but now I just want a car that gets me around. A computer is a tool, and business people have to remember that, and not to go off the deep end with this tool."

It's easy to get caught up in the hype of new technology. But, as Frank Westall, president of Dariana Technology Group, Inc., a business-software publisher in Buena Park, Calif., says, "If you're typing on a word processor, how much faster can you go with a 386 or a 486 than with your old PC or XT?" The answer is, not much, and if all you do is typing, an upgrade would be wasted.

In any case, owners of older machines won't be left behind. The manufacturers and publishers of hardware and software know very well that of the 60 million or so PCs out there, only a small portion are superpowerful. Many niche

players are providing support of all kinds for older as well as newer technology. Good programs will be written to run on the basic PC, XT, or AT for years to come. And many kinds of add-on boards and hardware can improve the performance of old machines.

In any upgrade, whether you are trying to replace a few machines or tie all your new and old machines together, you need to have clear business goals.

Although there are many ways to upgrade, and although no office is typical, we are offering 10 suggestions, from hardware tweaking to people issues, that will help you in deciding if, when, how, and how much to upgrade.

Burke Franklin named his software-publishing company *Jian*, after the Oriental "master of all arts" symbolized by his black belt.

PHOTO: ROBERT HOLMSTROM



Increase Processing Power

Sovran Bank in Richmond, Va., has a consumer-banking division that uses about 1,600 IBM PS/2 machines with 286 processors. All of the machines are networked. Steve Schutze, first vice president, says slow processing speeds constrained Sovran's use of its large databases. Working with Computerland and IBM, the bank turned to Aox, Inc., in Waltham, Mass. (800-232-1269), a maker of add-in processor boards and related software. Schutze was able to get increased speed and memory with a board that essentially made the 286 machine into a faster 386.

"We started putting these machines out there in 1987, and we're not looking to change units between now and 1993," Schutze says. "When you buy a new machine, you want to do some function that you just cannot use your existing machine for."

Aox is beginning to produce and market another kind of upgrade for much more common non-PS/2 computers compatible with the IBM AT. Users will be able to remove the AT's 286 processor and replace it with a 386SX chip set—the most common for today's business entry-level machine—for less than \$400.

The Personal Computer Enhancement Operation (PCEO) of Intel Corp., of Hillsboro, Ore., the maker of all the 80-series processors that drive the most common PCs, also pro-

COVER STORY

vides processor upgrades, which are widely available from computer stores and through mail order.

Whether you will need to upgrade to a 386SX or faster processor will depend largely on your software requirements. Says Tony Esposito, a technology consultant based in Arlington, Va.: "In general, you may need to upgrade to accommodate a specific application your people need to run. People start to look at faster machines the moment they start to look at graphics programs," whose files are so large that they tend to bog down slower computers.

You can also replace your computer's main board (called a motherboard). You might even be able to do this yourself if you are mechanically inclined.

The key to avoiding frustration and heartaches is ensuring that the replacement motherboard is completely compatible with the old one and also with any add-in parts.

Oddly, replacement motherboards are in the same general price range as processor accelerator products such as Intel's Inboard.

If you are doing any computer-assisted design (CAD) or crunching heavy-duty numbers on spreadsheets, still another way to enhance processing speed is to plug a math coprocessor in the

A PC Glossary

Microprocessor: The heart of the computer is its central processing unit (CPU). In the PC, it is a set of tiny silicon chips called the microprocessor.

286, 386: Abbreviations of Intel Corp.'s microprocessors (numbered 8088, 8086, 80286, 80386, 80486) used in IBM's personal computers and clones of them. Each higher number is faster.

SX: The 80386SX, Intel's less-powerful, less-expensive version of its 80386 chip, and abbreviated SX.

PC, AT, Clone, Compatible: IBM called its first microcomputer a PC; the AT uses the 80286. A clone or compatible is a PC not manufactured by IBM that will run software written for the IBM machines.

Byte: Expression of capacity; a computer "word." A thousand bytes is a kilobyte (K), 1 million is a megabyte (MB). A good-sized book will fit in 500K.

socket provided on most computer motherboards.

Coprocessors, which can cost from \$150 to about \$1,800, can double, triple, or even quadruple your calculation processing speed, if—a big if—your application can use a coprocessor; the vast majority cannot.



Try Simple Software

"Bloated programs are a hindrance, especially to the nontechnical user," says C.B. Luce, president of Environtec Corp., a Dallas firm that evaluates office requirements and installs upgrade equipment. "The manuals are too big. A high percentage of users now are not 'techies,' and they want to push the button and see the thing happen." More software publishers are providing simpler programs—with slimmed-down manuals—that do a few things well. Mail-order companies such as Power Up and Parsons Technology (319-395-3120) offer simple and inexpensive calendar, financial, labeling, and other business programs that lack some bells and whistles but do their intended tasks more than adequately.

When Alpine Industries, Inc., in New-

Finding The Promised LAN

Personal computers communicate among themselves with the ease of teenagers and their parents. They need a facilitator.

That's the role of a local area network (LAN). A LAN is essentially hardware and software that enables operators of isolated machines to share programs and data. LANs can be profitably used by even the smallest company.

The benefits are manifold, including the ability to send and receive electronic mail, transfer files and share information, make better use of expensive peripherals, and increase data security.

A sure sign that a LAN is needed is "when there is a common database that's accessed by several people at the same time," says Alan Blume, vice president of sales and marketing at Practice Management Systems, a computer reseller in Needham, Mass.

Smooth information flow is an important attribute of LANs to user Mark Anselment, controller of Les Wilson, Inc., an independent oil producer in Carmi, Ill. "When I finish something at my



desk, I just call up the front desk and have them access what I did."

Mike McCullough, director of AMA Systems, Inc., a computer reseller in Mount Carmel, Ill., says LANs can increase productivity at least 10 percent.

Novell, a LAN software publisher in Provo, Utah, dominates the market with about a 65-percent market share, reports the market research firm Computer Intelligence, in La Jolla, Calif. "For us, no other options really made sense," says John Miller, the systems administrator for United States Cellular, a cellular-phone company in Chicago. "The

Novell software offers the kind of flexibility and accessories that we needed to make the network a viable option and to consolidate a lot of equipment."

Miller estimates his cost per user at about \$2,700, including the network cards and software and the workstation itself. Novell's rule of thumb: Plan on about \$1,000 per station, exclusive of the PC or workstation.

If you don't plan to connect lots of PCs, there are several low-cost LANs available. These products, as typified by LANtastic from Artisoft, in Tucson, Ariz., are called peer-to-peer LANs. That is, instead of requiring a dedicated file server, each PC is connected to every other PC on the LAN. The advantages include simplicity and greatly reduced cost. A basic LANtastic setup averages around \$200 to \$400 per user for cables, cards, and software. The capabilities mimic many of those on Novell or other more sophisticated networks, including electronic mail, full support of peripheral devices such as printers, and data exchange.

But whether you plan on looking at a full-scale, server-based network like Novell's NetWare or a small peer-to-peer network, the advantages of connectivity will likely far outweigh any drawbacks.

—Alan Horowitz and Jon Pepper

port Beach, Calif., was trying to fund its waste-disposal subsidiary, it used a software package called BizPlanBuilder from Burke Franklin's publishing firm. The package falls into the category of "add-in," meaning it puts a template over a program that a user already works with. BizPlanBuilder requires an external spreadsheet and word processor in a fill-in-the-blanks business-planning process. Alpine created a 450-page plan that it says netted \$2.5 million in a private placement.

The point, says Franklin, is that the staff didn't require special training to use the program. "A lot of people don't include the cost of learning in a package," says Franklin. "How many companies lose sales because the staff doesn't know how to enter orders? A simple piece of software not only saves a lot of typing, it provides a lot of knowledge they don't ordinarily have."

Jian has built a tidy business out of simple programs like cash collection, partnership agreements, and employee handbooks. Such programs, Franklin says, are neither expensive nor on the leading edge of technology—"that's not where the average business is." (Jian can be reached at 800-346-5426.)

Of course, for some business tasks, such as word processing, spreadsheet analysis, and database management, you'll surely need to go beyond niche software. But even some thoroughbred software runs adequately on plow-horse computers. Among spreadsheets, for example, Quattro Pro 2.0 (Borland International, 800-331-0877) ranks consistently at or near the top in evaluations by technical publications, yet, despite its richness and speed, it runs nicely on low-end computers.

Some large publishers also offer simpler versions of their big programs. WordPerfect, arguably the leading word-processing program, has just come out with a simpler version, LetterPerfect. Microsoft has a program called Works, which combines a word processor, spreadsheet, database, charting, and communications, and it operates on basic machines.

Works or a similar combination program like Alphaworks or Lotus Works might be all a small business needs, rounded out with a simplified accounting program like Great American Software's One Write Plus or Computer Associates' Bedford.

How long can state-of-the-art programs be written for slower computers with limited capacity? A long time, says Spencer Layton, a senior vice president of Borland.

"Things like that are not defined by time," Layton says. "They are defined by the skill level and innovativeness of the programmers."

Present And Future: A Computer Survey

Nation's Business readers are already committed users of personal-computer technology. A recent survey of their present equipment and purchase plans reveals that acquisition of software and hardware, while slowing, still continues. Among smaller companies—those with 100 employees or fewer—63 percent own machines, and 29 percent plan to buy more. (See the accompanying charts.)

Among all readers, whether their businesses are large or small, 57 percent own IBM machines, and 32 percent own IBM-compatible machines. In their plans, most are looking to acquire machines with some version of Intel's 80386 processor.

The top software category for readers is word processing (75 percent), followed closely by accounting (70 percent), and spreadsheets (67 percent). Of planned software acquisitions, accounting (37 percent) is highest, followed by word processing (30 percent), and desktop publishing (24 percent). Readers generally buy their software in a computer store, and they are most displeased when there is no hotline support after the sale.

When it comes to peripherals, readers are weighted heavily toward dot matrix printers (85 percent). Although 46 percent have laser printers now, 66 percent are planning to add lasers in the next year. Only 17 percent have local area networks; 6 percent are planning to purchase a network in the next year.

The most important service Nation's Business readers are seeking from vendors is training.

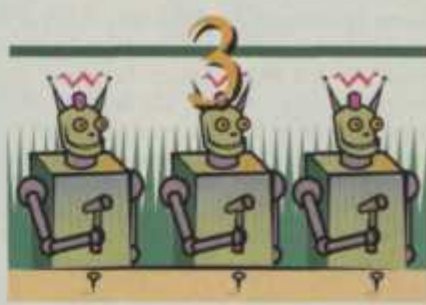
Companies With Under 100 Employees

63 Percent Own PCs

Number Of Machines	Percentage Who Own
1 - 2	51
3 - 4	22
5 - 9	16
10 - 24	6
25 - 49	3
50 - 99	1

29 Percent Plan To Buy More PCs

Number Of Machines Owned	Percentage Who Plan To Buy
1 - 2	76
3 - 4	12
5 - 9	8
10 - 24	2
25 - 49	1
50 - 99	1



Automate Routine Tasks

It's not always necessary to have a stand-alone fax machine or telephone answering machine. There are add-in boards that will allow a computer to handle these tasks.

Foreign Auto Parts, a Sharon, Mass., importer of parts for foreign cars, uses an automated phone system implemented on a Tangent 386 PC. According to Burt Patkin, assistant treasurer, service to customers has improved dramatically since he installed four voice-mail modules from Enhanced Systems, Inc., of Norcross, Ga.

"No more lost or misplaced messages on little pink slips," Patkin says. He can't put a dollar figure on gains based on improved service, he says, but he is sure that TeleBranch, TeleRoute, TeleBase, and Directory, which all together cost \$15,000, have more than paid for themselves and the dedicated microcomputer, which cost about \$3,000. It takes the pressure off telephone answerers, and you have a tireless secretary who can take and route messages 24 hours a day.

If documents created on a microcomputer are routinely dispatched by facsimile, you might try a fax board. Frank Anthony, office manager for Schlott Realty, in Morris Township, N.J., put the Twincom 24/96 board inside his 286 PC. Anthony uses the \$149 board to send copy for ads to the firm's agency. Besides Anthony, there are two other office workers supporting 30 agents in the field.

Before Anthony got the board, he had to print out each ad and then copy it before inserting it in the office fax machine. Now with one command he can fax the copy directly, saving one to two hours a week.

The board, which also can be used as a modem to forward data communications to remote computers, is a product of Image Communications, of Moonachie, N.J.

Dan Flohr, Image's president, says many customers use the board as a backup in case their office fax breaks



down or requires maintenance. That's why Ed Gravely of Henry County Plywood, a furniture manufacturer in Ridgeway, Va., bought the board. Otherwise, he uses it mostly as a modem.

Fax boards, too, can store communications to be sent at off-times so you can save on telephone line charges. The modem can do the same with routine computer mail.



Expand Memory

"In smaller companies, productivity depends as much on response time as anything else," says Kirby Dyess, business-unit manager for Intel's PCEO. If response time slows, "your mind wanders, you lose your train of thought, and you have to go back and redo a task." Under those circumstances, Dyess says, more memory "absolutely increases your productivity," because it can dras-



PHOTO: GJM WENDENHALL

Judy LaComa, who looks after computers for a firm in Dallas, used a simple software program to squeeze more onto her company's hard-disk drives.

tically increase the speed of your machine—in fact, far more drastically than upgrading from a 286 to a 386 chip.

"Adding memory will increase speed between five and six times," Dyess says. "It isn't just for space. Being able to have more data in memory keeps the processor from having to go to the hard disk, which takes time."

Best of all, memory is inexpensive. It costs \$50 to \$100 a megabyte these days, depending on your machine, if you can upgrade on the motherboard; it's as much as \$300 more if you need to upgrade on a separate expansion board. The only problem is making sure that you get the right kind of memory so that it is compatible with your machine.

The ultimate—and, at prices up to \$2,000, the most expensive—form of RAM upgrade is a so-called caching hard-disk controller. This device can radically speed up processing by minimizing the occasions on which data must be taken from and stored on your hard disk.

One highly rated caching controller is the PSI HyperStore-1600, manufactured by Perceptive Solutions, Inc. (214-954-1774).

Keep in mind, too, that there are kinds of memory other than RAM that get crunched as a machine ages, most notably hard-disk space. But there are ways to double your storage without buying a new hard drive. By installing

Beauty Is More Than Screen Deep

During the early and middle 1980s, the early years of business computing, there was practically no choice in operating systems, the software that instructs PCs how to run applications software and perform other basic tasks. Interfaces—in computer technology, the symbols and words that users see on their screens before they load an application—were cryptic and unfriendly at best. Now, however, refinements in operating systems and user interfaces have made them among the hottest topics—and greatest sources of confusion—among business users. Here is an abridged rundown of the most common.

Macintosh. In the Mac world, operating systems and user interfaces still are pretty much nonissues. Macs will run only on Apple Computer Inc.'s proprietary operating software featuring the industry's pioneer graphical user inter-

face (GUI), notable for its reliance on little graphic figures, called icons, to represent programs and files, and its use of an off-keyboard pointing device, called a mouse, to access them.

All Mac software must use the same icons and mouse "point-and-click" movements the same way. Proponents say that makes it significantly easier to learn than more free-form programs written for IBM and compatible PCs.

Early MS-DOS. The initials stand for Microsoft-Disk Operating System. Microsoft's early versions of DOS, still widely in use on PC, XT, AT, and some 386 chip-based PCs, were notable for the cryptic commands they required, their woeful memory-management limitations, and their decidedly alien user interface. Still, no operating system is supported by as many programs—some 10,000, by Microsoft's count.



Extended DOS. Current DOS Version 4.01 and Version 5.0, which Microsoft officials say will be available before July 1, address memory-management problems and the extraterrestrial-looking command structure. Version 5.0 is "going to take the mystery out of DOS," promises Brad Chase, a Microsoft executive. Chase says Microsoft will not orphan the 30 million PCs in the U.S. that lack the muscle to run Windows programs effectively.

Software developers agree. Says Spencer Layton, senior vice president of business development for Borland International, a leading publisher of busi-

\$90 worth of software, Judy LaComa immediately avoided spending \$400 for added computer memory. LaComa, computer specialist for the 100-employee PrideUSA medical rehabilitation center in Dallas, bought FontSpace because half of the center's 25 microcomputers were approaching capacity limits on their hard-disk drives.

The package, a product of Isogon Corp. of New York, compresses files an average of 25 to 30 percent each. For example, on one crowded 40-megabyte drive, FontSpace instantly freed 13 megabytes of capacity. Once FontSpace is installed, clerks function exactly as before; they don't have to learn any new commands. LaComa said installing the package took her no more than five minutes per computer, plus 10 to 15 minutes for each font in which the system stores and prints files.

Only one copy of FontSpace was required for the center's smorgasbord of ALR, Compaq, Compudyne, and Everex computers.

You can achieve data compression with an add-in card as well. Stac Electronics has produced a \$229 board it calls the Stacker Coprocessor, which will automatically compress and decompress files as you work. It slips into a slot in an IBM compatible and gives you—are you ready for this?—"real-time lossless compression." That means you don't even know it's working, and none of the data is deleted or changed in the compression process. The Stacker will not yet work on floppy disks, but it

works with all kinds of hard disks.

Other software that will keep your hard disk spinning at maximum speed includes optimizer programs. There are lots of these utilities to choose from; talk to your local software retailer. One package you may want to check out because it does so many disk-optimizing and data-recovery tasks so well is Norton Utilities Version 5.0, list price \$179 from Symantec (800-343-4714).



Rejuvenate With A New Face, A New Feel

The quality video displays and the cards



PHOTO: JIM WENDENHALL

Frank Westall's *Dariana Technology* markets software that lets you snoop through your computer.

that support them have improved dramatically in the past year. Super VGA monitors—video graphics adapters with a resolution of 600 pixels by 800 pixels—are available at street prices of around \$400. Even higher-resolution 8514/A monitors can be found for about \$100 more. Decent video cards are about \$150 to \$250.

There are several good reasons to consider upgrading your monitor; the first among them is that future software may demand it.

Many new programs, most notably desktop-publishing packages and Microsoft Corp.'s Windows 3.0, will not run at all or will drive you to distraction on monochrome or low-resolution color dis-



ness programs including the highly rated spreadsheet Quattro Pro and database Paradox: "We think [DOS] is going to live a long happy life."

Windows. This may be the most discussed product in computing history. Windows 3.0 (earlier versions did not attract much of a following), introduced last May, is a GUI that, like the Macintosh, looks the same from one program to the next. It also uses icons and a mouse. Windows is capable of managing the large amounts of memory that some current programs require and permits multitasking—the operation of two or more programs simultaneously. Micro-

soft says it has sold more than 2.25 million copies retail to date and has installed an additional 500,000 copies on new machines. More than 1,000 programs already have been written expressly for Windows.

OS/2. Developed jointly by Microsoft and IBM, OS/2 has been available for more than five years but has not caught on widely. OS/2 solves many problems of DOS, and it is especially good for networks in which several users need access to the same files.

Unix. Originally designed by AT&T for minicomputers, Unix has been around for more than 15 years. It is the

system of choice for high-end workstations connected to networks.

Other products work with DOS to offer multitasking, thereby giving them some of the effects of Windows without requiring all the hardware. Software Carousel (SoftLogic Solutions, 800-272-9900) is a capable multitasking and memory-management program for PC, XT, and AT class machines.

Quarterdeck Office Systems (213-392-9851) publishes a wide range of top-flight memory management and multitasking software for PCs of all levels of sophistication. Many consider the latest releases by Quarterdeck of its high-end products, QEMM-386 and DESQview-386, at least equal to Windows. (We'll review them in an upcoming Small-Business Computing.)

And then there's Ensemble (GeoWorks, 800-772-0001), a brand-new GUI that will run on even low-end machines. Some say that Ensemble is the GUI that Windows had hoped to be. (We'll also fully review this product in a future Small-Business Computing.)

COVER STORY

plays. (See "Beauty Is More Than Screen Deep," on Page 18.)

Then there is the issue of productivity. Good color monitors can be easier on computer users' eyes and also can be more inviting to work on for long stretches of time.

While you're at it, you might want to invest in a new keyboard. The better of the new breed are extremely responsive, feature more than one style of cursor controls, offer function keys at the top and at the left of the keyboard, and have a calculator-style numeric keypad. They facilitate faster typing and numeric data entry. Our favorite is the Northgate OmniKey, available via mail order for \$129 (800-548-1993).

One restatement of the cardinal rule of upgrading: Whether you buy your upgrade products from a value-added reseller, a retail outlet, or a mail-order distributor, be sure your new or replacement components are fully compatible with your existing system.

Determining full compatibility involves a variety of considerations, such as the size and number of expansion slots remaining in your computer, the remaining memory capacity of your machine's motherboard, and the age and make of the chips that make up your basic input/output operating system

(BIOS), says Westall of Dariana. The company (714-994-7400) publishes the inexpensive software System Sleuth Pro, which provides precise details about what's inside the case of your computer.



Find New Uses For Replaced Machines

If you have decided to replace some of your machines, don't toss your old ones into the trash can. GRC's Lawrence Wolfe suggests that you look at secondary users such as nontechnical managers, secretaries, or others for whom an older machine would not be a handicap.

For example, word processing, which every business needs, works well on a

lower-powered machine.

George Keller, executive vice president of the Association for Services Management (AFSM), a trade group for technology-service providers, says moving old equipment to "less strenuous locations" will help it live longer. Dedicating a PC to receiving faxes, directing modem traffic on a network, or managing a printer for a group might provide additional life for it.

But suppose you just have no use for the old machine? "There are trade-ins," says Keller. "When ours are tired, we sell them to fourth-party services to cannibalize, use the parts, and sell separately. A whole industry of fourth-party servicers has developed, and almost every town has one."

If you cannot locate one in your area, you can call the Association for Services Management for a free guide (800-333-9786).

And there are many schools and libraries that would welcome the donation of your older machines. The non-profit National Cristina Foundation (800-CRISTINA), based in Pelham Manor, N.Y., provides used computers to the disabled without charge.

The foundation sends the donor a receipt for the value of equipment provided.

You Can Take It With You

Sales of portable computers are sizzling hot—and no wonder.

The current generation of notebook computers (those weighing less than 7 pounds) and laptops (their slightly weightier cousins) rival all but their most technologically advanced desk-bound brethren in raw computing power. Unlike earlier portables, the new models allow itinerant business people to run advanced software applications, including those written to run in conjunction with the Microsoft Corp. Windows 3.0 graphical user interface.

But despite dazzling technological advances in the computing capabilities and designs of portable computers in recent years, they remain less functional than desktop machines in a number of areas. Color displays for portables cost \$2,000 to \$3,000 and require an AC power source.

Portable keyboards are necessarily condensed, and working on them for long periods can be tiresome. Data residing within portables can be shared conveniently or inexpensively—but not both—among users of a local-area net-



work (LAN). And battery life remains a maximum three to four hours.

These obstacles are not insurmountable. Intel Corp. is about to release a chip set, the 386SL, featuring built-in power-management systems that could extend battery lives by up to 50 percent. Some portables can accommodate full-sized keyboards and VGA color monitors, pointing devices such as a mouse or trackball, and LAN adapters. (We'll review an industry-leading LAN adapter, made by Xircom, Inc., in the Small-Business Computing section of a future issue of *Nation's Business*.)

Other portables offer easy connections to these add-ons through a device called a docking station, which costs about \$1,000.

Still more practical solutions will arrive soon, industry experts promise.

"Technology is moving so fast that in a couple of years affordable built-in color screens and really efficient network adapters" are sure to evolve, says Howard Elias, a vice president of Tandy Corp., a pioneer in portable computing.

Within that time, revolutionary portable machines also are likely to have hit the streets. Pen-based computers that function more like spiral-bound school notebooks than computers took a giant step toward the marketplace recently with release of a handwriting-recognition-based operating system called PenPoint, by GO Corp., a software developer in Foster City, Calif. Two new companies, PenSoft and Slate, are devoting their resources solely to developing software for the PenPoint system.

With technology advancing so rapidly and with prices of less-advanced portables dropping as quickly, is now a prudent time to buy one or more portables for your business? If you or your staff members frequently leave the office to call on current or prospective customers, attend meetings, buy products, or the like, the answer probably is yes. Today's machines may not be capable of dazzling video presentations, but they are terrific for almost every other business use.

—Albert G. Holzinger

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7 Zap Impulse Buying

Most organizations have one or more employees—sometimes including the owner—who love technology and who always want the latest and the best. You have to make sure that the latest is the best. “Companies should look to see if hardware is placed properly,” says AFSM’s Keller. “Don’t give the ultrafast machine to the guy who doesn’t need it.”

The first step is to decide the tasks to be accomplished, and then choose the kind of software you need, says Virginia-based consultant Esposito, whose clients range in size from small architectural firms to a giant federal bureaucracy, the General Services Administration. “Acquisition of hardware should be the very last step. Have a firm list of software and what you need it to do for you first. If you buy hardware first, you’re making a terrible mistake.”



8 Don't Try To Do Everything Yourself

Sometimes, getting your computers to work together and keeping them running may seem to be more of a chore than acquiring them and learning how to use them in the first place.

You’ll probably turn to a “system integrator” to put together and service any new network you install. System integrators get a discount on the machines and software, integrate all the parts into a working system, and install and piggyback their services with those of the manufacturers.

But if you’re putting together a lot of equipment of different ages and from different vendors, and you’re looking for someone to service that diverse collection, you can actually go to the biggest in the business, IBM.

Mark Eaton, IBM’s manager of small-business services marketing, says: “What we’re hearing from small-

business owners is: ‘I’m not here to be in the data-processing business. I want to be able to use the computer to be more profitable. If I have to worry about the machine, then I’m not focusing on my business.’” More and more companies are having the data-processing part of their businesses done by outside experts, he says, instead of performing them in house.

Eaton says IBM recognizes that offices are full of heterogeneous equipment and software. The customer can simply consign everything to the services arm of IBM, which, in conjunction with its business partners, will undertake to answer questions on all the hardware and software, make sure it continues to work, provide for disaster recovery, and recommend upgrades when and if they are necessary. And Eaton says that IBM will provide services to the smallest companies.

For more information, call the IBM dealer or authorized agent nearest you. Or call IBM directly at (800) IBM-SERV.



9 Commit To Continuing Education

One key to making businesslike computer buys is keeping abreast of the industry. But that’s not easy, even for industry insiders such as Dariana’s president, Frank Westall. “I don’t have time to learn everything about every new technology,” he says. “I’m busy trying to run my business.”

Fortunately, he adds, there are “plenty of magazines . . . that deal with technology issues in a way that business people like me can understand them.” Two magazines that we believe balance credibility and readability pretty well for lay readers are *PC/Computing* (800-365-2770) and *PC Magazine* (800-289-0429).

Another publication worth exploring is *What to Buy for Business* (800-247-2185). This is a series of six guides to the features, strengths, shortcomings, and best-buy prices of office equipment, including computers, printers, and software. The annual price for six guides plus six updates is \$95.

A useful book is *Upgrade Your IBM Compatible and Save a Bundle* (Tab Books, 800-822-8138).



10 Safeguard Operators' Health

Evidence collected so far suggests that there is a direct link between comfort and productivity for PC users.

Logitech, Inc., which produces a line of ergonomic computer pointing and entry devices, cites a recent internal Citibank study that changing work habits to reduce strain resulted in an 11-percent drop in errors.

State Farm Insurance, in looking at work patterns, found that a good ergonomic chair can increase productivity 40 to 80 percent.

Employers should be prepared to deal with worker concerns about keyboard use (repetitive hand movements are blamed for ligament damage known as carpal-tunnel syndrome) and the video display terminals themselves. San Francisco recently passed an ordinance requiring ergonomically designed workstations for PC users, and other jurisdictions may try to impose similar mandates.

Dr. Robert Morris, a specialist in occupational medicine at the Detroit Industrial Clinic, says that although “not every ache or pain is a disease or injury,” early reports can be used to suggest what might be done to help. Fortunately, early attention to problems can be less troublesome and expensive than trying to cure an injury later.

“Look at what people are complaining of,” says Morris. “Wrist pain suggests the keyboard level should be changed; neck pain means the position of the monitor should be changed.”

Computer-equipment and office-furniture manufacturers such as Steelcase, Haworth, and Herman Miller are producing ergonomic furnishings, and their dealers can suggest what equipment works best, from lighting to chairs to screens.

One of the best things you can do is train people, as Citibank did, to take work breaks, walk around, and focus their eyes on other objects.



To order reprints of this article, see Page 69.

Women In Business

Ideas, insights, and information to help women compete and succeed in the marketplace.

By Sharon Nelton

ORGANIZATIONS

A High-Powered Group Comes Of Age

The Committee of 200, which bills itself as "an organization of the world's most successful businesswomen," is beginning to reach out. In April it will announce the first winner of its Emerging Entrepreneur Awards program and will launch an effort to train women entrepreneurs.

But in the early years after it was founded in 1982 by 21 of the country's most prominent businesswomen, C200 appeared to enjoy its exclusivity. Membership was limited to the rare woman who headed a company with annual sales of more than \$5 million or who ran a corporate division with annual sales of more than \$20 million. The founders hoped to find 200 such women—hence the name, Committee of 200.

Members came together to exchange ideas, explore critical issues in business and industry, and to share experiences about what it was like to be that isolated woman at the top. One publication called the organization "unabashedly elitist."

Those were "formative years," says Mylle H. Bell, C200's president since 1989 and director of corporate planning and development for BellSouth Corp. in Atlanta. Today, she says, the organization is maturing.

Now C200 is focusing more energy on developing women entrepreneurs. The winner of the new award, to be named at a national C200 conference in San Antonio April 18 and 19, will be given "networking opportunities" with C200 members and a year of business counsel from a C200 advisory panel. The awards program is being conducted with the Sol C. Snider Entrepreneurial Center at the Wharton School of the University of Pennsylvania, in Philadelphia.

Vanderbilt University is C200's partner in a pilot one-day training program April 12 in Nashville. C200 members

will conduct sessions for would-be and fledgling business owners on such topics as managing during a recession, strategic planning, and managing conflict.

Bell says C200 hopes to expand the program throughout the country to "second-tier cities," where entrepreneurial-training opportunities are not readily available.

In addition, the organization has established a foundation to provide schol-

arship getting financing for a project in Conroe, Texas. McArthur sent letters to C200's Texas members to enlist their help in suggesting financing leads. Within two weeks, she had six replies. "So it's a terrific networking opportunity," she says.

C200 has increased its eligibility requirements over the years. New members now must head firms with at least \$10 million in annual revenues or operate corporate divisions of more than \$50 million in annual sales.

With more than 340 members, including 12 from other countries, C200 has far exceeded the hopes of its founders. More than 70 percent are owners of privately held corporations. Dues are \$1,000 a year.

Theoretically, membership is by invitation only. But after reading about C200 in a newspaper article, McArthur, whose company was then three years old, sent for an application. She was turned down the first time she applied but was invited to try again in six months. "They said that my company was a little bit too young, and they wanted to see more of a track record,"

says McArthur. When she reapplied, she was accepted.

Any of C200's semiannual meetings can attract the likes of Jenny Craig, president of Jenny Craig International, a weight-loss company based in Del Mar, Calif.; Susan B. King, president of Steuben, a New York-based fine-lead-crystal division of Corning, Inc.; and other business "stars."

And if any of them are seen savoring a lollipop or a familiar chewy chocolate candy during the sessions, it's OK. C200 member Ellen R. Gordon, president of Tootsie Roll Industries, Inc., always provides generous supplies of her company's products.

For further information about The Committee of 200 and its programs, contact Lydia Lewis, Executive Director, Committee of 200, 676 N. St. Clair, Chicago, Ill. 60611; (312) 280-5200.



PHOTO: LAURA BAKER

Mylle H. Bell of BellSouth Corp. is president of The Committee of 200.

arships and make grants aimed at promoting entrepreneurship among women. It also wants to offer itself more as a resource to other institutions and organizations, where its members might serve on boards or commissions. And it wants to be a voice on some of the major issues facing American business, such as basic education. "This truly is an organization geared toward furthering business, business opportunities, and business development, and helping our members in that respect," says Bell.

Meanwhile, "networking" has not been given up. Recently Cheryl McArthur, president of McArthur/Glen, a Washington, D.C., company that develops upscale outlet shopping malls throughout the country, was having dif-

RESOURCES

On The Bookshelf For Women

Here are two recently published books of interest to women in business:

The International Businesswoman of the 1990s: A Guide to Success in the Global Marketplace, by Marlene L. Rossman (Praeger, \$19.95). Tips on conducting business in countries throughout the world. Aimed at both entrepreneurs and corporate executives. Says the author: "Women are no longer fighting for bit parts in a male-directed play; global business requires new management philosophies based on cooperation and teamwork, rather than on cutthroat competition. Women, whose upbringing has traditionally emphasized these skills, are becoming the new stars on the global stage."

Working with Men: Professional Women Talk About Power, Sexuality, and Ethics, by Beth Milwid (Beyond Words Publishing, Inc., \$12.95 paper). Observations of 125 professional women on topics such as making the move from school to work, establishing credibility, learning the informal system at work, and hitting the "cement ceiling" of impenetrable obstacles to advancement.

ENTREPRENEURSHIP

Women Business Owners: What's Really New

A recently released and widely reported survey by the U.S. Census Bureau does more than just confirm earlier findings of astounding growth in the number of women-owned firms—from 2.6 million in 1982 to 4.1 million in 1987, a 57 percent increase. What's really new in the latest survey is the data on receipts from women-owned firms. The Census Bureau found that businesses owned by women took in nearly \$280 billion in 1987, compared with Internal Revenue Service figures just a year earlier that placed receipts of women-owned businesses at less than \$72 billion.

Why the difference?

IRS figures track only sole proprietorships, while the Census Bureau figures also include partnerships and Subchapter S corporations. Still, because they do not include larger corporations, the Census Bureau figures probably underestimate the number and revenues of women-owned firms.

The Census study also found that:

- Women-owned businesses in manufacturing industries more than doubled in five years, rising from 44,909 in 1982 to 93,960 in 1987. Receipts in manufacturing rose nearly sixfold, from \$5.3 billion to \$30.9 billion.

- Women-owned firms in the wholesale trades increased 157 percent in the same period, from 32,059 to 82,513. Annual receipts rose from \$9.2 billion to \$43.8 billion.

- In 1987, women business owners employed 3.1 million American workers, more than twice the 1.4 million they employed in 1982.

For a copy of the complete report,

1987 *Women-Owned Businesses*, send a check or money order for \$27 to the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; (202) 783-3238. Refer to GPO Stock No. 003-024-06949-1.

Top 10 States For Women Entrepreneurs



STATE	WOMEN-OWNED FIRMS
1. California	559,821
2. Texas	298,138
3. New York	284,912
4. Florida	221,361
5. Illinois	177,057
6. Pennsylvania	167,362
7. Ohio	154,084
8. Michigan	133,958
9. New Jersey	117,373
10. Massachusetts	111,376

Source: U.S. Department of Commerce
1987 Survey of Minority-Owned Business Enterprises

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PROFESSIONAL GROWTH

Should You Be A Mentor?

A lot of emphasis is placed these days on experienced women serving as mentors to younger women—in corporations or in the entrepreneurial world. Good mentoring can help a woman ascend the corporate ladder or grow a successful business.

But that doesn't mean every successful businesswoman should be a mentor. According to *Executive Mentoring: Myths, Issues, Strategies*, a 32-page booklet developed under a grant from the Women's Educational Equity Act Program, there are some things you should think about before deciding to become a mentor. Here are some of them:

- Consider what would be required in terms of time, effort, and openness.

Weigh the costs and benefits to yourself. Consider how you feel about the person you would mentor.

- Clearly define the roles, expectations, and outcomes for each of you. This helps you to structure a relationship that can function successfully and openly.

- Plan for the end of the relationship. It helps to build in checkpoints for deciding whether to end the relationship at a given time or to renew it.

Within an organization, the booklet says, the goal of mentoring is successful career advancement. "Therefore, it is reasonable to expect your protégé to move on to bigger and better things. It proves you have done a good job—one of which you can be justifiably proud."

Executive Mentoring is available for \$10 (which includes \$2 for shipping) from the Education Development Center, WEEA Publishing Center, 55 Chapel St., Newton, Mass. 02160; (617) 969-7100.

CASH MANAGEMENT

When Others Go Bankrupt

By Chris Kelleher

Could your business survive the bankruptcy of a major customer, tenant, or supplier?

Consider the recent experience of a Midwest defense contractor. The company's business was slowing down, and it was glad to land a \$400,000 contract, says bankruptcy attorney David Lander of St. Louis. Because the firm was dealing with an established customer, the contractor didn't conduct a credit review. That was a mistake. A credit review would have revealed that the customer was having serious financial problems.

Unaware of the problems, the contractor was shocked that it took six months after delivery to collect the first payment of \$100,000 from the customer. But the worst was yet to come.

Shortly thereafter the customer filed for bankruptcy, and the contractor learned that it not only would have to write off its receivable but also would have to give up the \$100,000 it had received. Under bankruptcy law, the money had to be remitted to the "estate" created to settle the company's debts. The \$100,000 had become a "preference" payment, which is a payment made by a bankrupt company within the 90 days—or, in some instances, within the year—preceding the filing for bankruptcy. Preference payments become part of the bankrupt firm's "estate."

"Regrettably," Lander says, "the contractor never really recovered from that disaster" of its customer's unpaid debt, and it went out of business.

While the bankruptcy of a customer doesn't always deal a fatal or near-fatal blow, a company is often astonished to discover that it has little or no protection under the law when one of its customers, tenants, or suppliers files for bankruptcy.

"We have to remind our clients that bankruptcy courts were built for the debtor, not for creditors," says attorney

John Graham of Los Angeles, who specializes in representing bankruptcy creditors.

Bankruptcy attorneys across the country are expecting an increase in their business because of the recession. In certain industries, notably real estate, home building, retail sales, trucking, and airlines, they note, various companies have already demonstrated financial problems.



PHOTO: ©TOM BREWSTER-BLACK STAR

A hungry firm can be too generous with credit, says bankruptcy attorney David Lander of St. Louis.

"No industry should feel immune from the effects of this recession," warns Randy Rogers, who practices bankruptcy law in San Francisco. Lander, in St. Louis, agrees, and he sees weakness in almost every industry. Atlanta bankruptcy attorney Neal Batson cautions that in today's economy, a company has to assume that any customer could fail.

In light of all these circumstances and possibilities, why would any company risk being burned by a customer's bankruptcy?

One reason is that businesses sometimes are too determined to get their product out the door, says Chris Coyle, a Tulsa, Okla., bankruptcy attorney.

Screen your customers, and watch for the warning signs of others' business failure—so you won't be swept away by their bankruptcy.

"They sometimes forget that the function of our mercantile system is to exchange goods or services for cash, not for accounts receivable. The result is that even major-league vendors can heedlessly extend credit to people who just don't deserve it."

It's not always a company's fault, however. In some industries, heavy competition will force a firm to take extraordinary credit risks. "It's very difficult for a business that's hungry for orders to have a tough credit policy and risk losing customers," says Lander.

In establishing their credit policies, businesses should realize that they are acting like banks, Coyle says. "Companies need to do the same things that prudent bankers do when making loans."

In addition to screening new customers carefully, it's more important than ever to conduct periodic credit reviews of regular customers, Batson advises.

Businesses should also watch carefully for the appearance of any of the following bankruptcy warning signals:

Tax problems, liens, and lawsuits.

In many instances, a customer files bankruptcy to forestall attempts by its creditors or the Internal Revenue Service to seize its assets. Pending tax liens, other liens, or lawsuits could signal the customer is in trouble. If such actions are not noted in the credit report, usually they can be discovered by checking with the courthouse or the recorder of deeds in the jurisdiction where the customer is located.

Changes in production, quality, or service. Businesses in trouble often decrease their output, slow the rate of production, or cut corners in their quality or service in an attempt to preserve desperately needed cash.

Changes in payment patterns. Signals to watch for include partial or sporadic payments by a customer who formerly paid in full; delay in payment of 60

Chris Kelleher, an attorney in St. Louis, writes about legal and other topics.

CASH MANAGEMENT

days or more by a customer who used to pay promptly; a dramatic increase in a customer's volume of orders, with the same monthly payment; and frivolous complaints to reduce the bill or to delay payment.

Management turnover. While management changes may be necessary, turnover among top and middle management can signal trouble, particularly if the customer constantly replaces its chief financial officer or other top financial personnel.

Breakdown in communication. Unreturned phone calls, unanswered correspondence, or managers who are always unavailable are circumstances that should trigger a review of that customer's credit status.

Bad news. A firm should keep its ear to the ground for unfavorable information about its customers. Local and business newspapers, trade associations, credit services, and Securities and Exchange Commission reports can be good sources. Although such information sometimes is unreliable, it nonetheless can serve as a starting point for making further inquiries about a customer.

Large orders. An unusually large order or a dramatic increase in overall orders could spell trouble for a company



PHOTO: CHERMAN KOKOLIAN—BLACK STAR

Bankruptcy courts are for debtors, not creditors, says attorney John Graham of Los Angeles.

if a customer is headed toward bankruptcy. The firm may wish to update the customer's credit or require a deposit or

a letter of credit before accepting or shipping large orders.

Increasing reliance on the company. While it may be flattering for a firm to obtain an ever-increasing share of a customer's business, it should be wary if this occurs. Sometimes the reason for the increase is that the customer is being cut off by its other suppliers and has no one else to order from.

False or misleading information. If a firm consistently gets false, misleading, or incomplete information from a customer, that can signal that the business, out of desperation, will say anything to keep its doors open for one more day.

Unexplained changes. A company should investigate a change in a customer's banking relationship, the announcement of dramatic new business plans, the hiring of management consultants, or similar major changes to determine whether they signal a healthy business on the move or a sick one.

Layoffs and downsizing. While layoffs and downsizing may be inevitable in a recession, a company should be wary of a customer who has to cut not only the fat but also the muscle and bone in order to survive.

When confronted with a customer,

IF YOU FOUND SOMEONE WHO HAD AN EXCELLENT RESUME, CUT COSTS, AND WORKED FOR PENNIES A DAY, YOU'D HIRE THEM IN A SECOND.

tenant, or supplier in financial trouble, a company should immediately evaluate its situation and develop a plan. Then the company should implement the plan as quickly as possible—and with the customer's cooperation, if possible.

Here are strategies that are used often in such instances:

- Demand partial or complete payment for past-due accounts before extending new credit.
- Have the customer sign a promissory note with an accelerated repayment schedule to cover the past-due account.
- Require the customer to make a deposit or obtain a letter of credit before the start or delivery of large orders.
- Insist on COD for all future deliveries.
- Obtain collateral from the customer to secure existing and future credit.
- Sue the customer if necessary.

In certain instances, a company should consult with an attorney to review its legal options and legal liabilities. This is particularly true when a troubled account constitutes a large percentage of sales or receivables or if a long-term contract, lease, or licensing agreement is involved. Graham warns that companies with long-term contracts and leases are particularly vulnerable because they may be forced to continue to honor those agreements for months after a bankruptcy is filed without re-

Businesses sometimes forget that the function of our mercantile system is to exchange goods or services for cash, not for accounts receivable.

—Bankruptcy attorney
Chris Coyle

ceiving any payment for past-due amounts.

Other bankruptcy issues to discuss with an attorney include:

- Stopping shipments in transit or reclaiming goods already shipped to a bankrupt company;
- Setting off amounts owed to the bankrupt customer against amounts that the customer owes the company—if the contract with the customer permits it;
- Filing mechanic's liens or other liens;
- Taking steps to minimize the risk of having to refund "preference" payments.

If the account is small and if there are no major legal issues, then it's usually not cost-effective for a company to have its own attorney keep close tabs on the customer after it files bankruptcy. In most instances, the bankruptcy court appoints a committee composed of creditors; the committee monitors the bankruptcy on behalf of all of the unsecured creditors.

Although a creditor's committee sounds good in theory, Graham says, creditors shouldn't expect miracles, particularly if a bank holds all the assets of the bankrupt customer as collateral.

Regardless of the degree of participation in the progress of a customer's bankruptcy case, a company shouldn't expect to receive much good news in the short run and should sometimes prepare itself for the worst, Randy Rogers cautions.

In short, surviving a customer's bankruptcy is a combination of good planning, vigilance, good advice, and, sometimes, a little luck. Says Chris Coyle:

"If a business is aggressive in screening its customers and in monitoring its accounts receivable, it probably won't get hurt too badly, unless it's just plain unlucky."




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FINANCE

Raising Capital In A Recession

By Joan C. Szabo

Business owner Steve Hutton recently needed a sizable boost in his existing line of credit to help cover the cost of a new nursery operation his company launched on the Eastern Shore of Maryland. Hutton and his father own and operate Conard-Pyle, a wholesale nursery based in West Grove, Pa. Established in 1897, the firm has annual sales of nearly \$11 million.

Hutton says he was especially concerned about finding additional financing during a recession and during a time when many smaller firms were feeling the effects of a credit squeeze. He feared that even though the company has never missed a loan payment, it might not receive the additional financing it needed.

To steer Conard-Pyle through the complexities of today's credit market, Hutton hired a consultant. The business owner was determined to make the best case possible to his bank concerning the company's financing requirements. "If the bank said no to our request," he says, "we would have been in an extremely serious cash position."

With the help of financial consultant Catherine E. Lister of Gladwyne, Pa., Hutton spent a good deal of time and effort preparing the loan request. Lister helped identify areas on the company's balance sheet that might be of concern to lenders, and she explained how Hutton should address them.

Fortunately, Conard-Pyle's financing request was granted. In addition, the company's credit line, which was due for renewal, was extended at its existing interest rate.

Hutton says he discovered that while it is particularly hard right now to obtain financing, it still is possible for a growing and profitable small business to borrow money during these economically difficult times. A much greater effort is required, however. In addition, more creative credit approaches and sources must be pursued.

Start-ups, on the other hand, typically have not received bank financing because of the high risk of failure. Many

still rely on personal savings, home equity, and capital acquired through friends and relatives. Although not long ago it was possible for some entrepreneurs to win start-up capital, it's not as likely these days. "There were periods in the early to mid-1980s when a good idea might be able to generate interest through some type of public offering or public sale of debt or equity, but those sources have dried up, and not many

Though credit is tight, financing is available for small firms willing to try harder and be more creative.

it," says Harvey Mackler, chairman of the small-business banking unit of the American Bankers Association, and an executive vice president of Gibraltar Corporation of America, a subsidiary of United Jersey Bank.

The five C's are character, cash flow, capital, collateral, and economic conditions.

Character consists of the borrower's integrity, experience, and ability. You will have an easier time winning financing if you know your local banker and have a credit history with the bank. "We place a good deal of emphasis on long-term relationships and knowing the customer," says Don Judson, senior vice president for administration with the Commercial Bank in Salem, Ore.

Now more than ever, bankers are looking for strong assurances of repayment, says Mackler. That is where cash flow fits into the picture: Is there a sound basis for assuming the firm will continue to generate sufficient funds to cover interest and principal?

When bankers look at the third C—capital—they try to determine whether the firm is adequately capitalized to run the business properly.

The fourth C is collateral. Mackler says that banks require most smaller businesses to provide sufficient collateral to secure a loan. In addition, bankers generally request that a small-business owner personally guarantee his or her company's indebtedness. Lenders also insist that 20 to 30 percent equity be contributed by the company, says consultant Lister. For example, if a firm wants to launch a \$100,000 expansion, the bank will want the company to use \$20,000 to \$30,000 of its own money.

The fifth C—the condition of the economy—has a bearing on how cautious lenders are apt to be when considering a loan request. In a recession, lenders' tolerance of risk generally declines.

Select a bank that lends to small firms. "Don't bang on the wrong door," says Lister. "Business owners tend to do this. Then they receive a series of



PHOTO: GAIL ISMARCO JR.—BLACK STAR

Nursery owner Steve Hutton obtained financing with the help of consultant Catherine Lister.

people are anticipating a return to that type of optimism," says Daniel Jacobson, management consulting manager for the accounting firm of Grant Thornton in Chicago.

Today's restrictive credit environment makes it more vital than ever for small companies to pay scrupulously close attention to every detail when preparing a loan request. Here are important steps that experts say a business owner must take to obtain additional capital from a bank during a recession:

Make sure you stack up well on the "five C's." Bankers are paying much closer attention to the "five C's of cred-

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FINANCE

rejections, which show up in their credit reports." A trail of rejections can make a bank disinclined to approve a company's loan application, she says.

There are a number of banks that specifically target the small-business market. Many of these are community banks, which depend on smaller companies for a good part of their commercial lending business.

To remain competitive, some larger banks have established special units for small-business lending. One such bank is First Union National Bank of North Carolina in Charlotte. It established its business-banking unit in 1987 to focus on companies with sales of \$1 million to \$5 million. "If we run into a company that has \$6 million in sales, we refer it to a different lending area in the bank," says David Johnson, vice president and team leader in the unit.

Prepare your case thoroughly. "It is more important than ever before to come in well prepared, because bankers are hunkered down a little bit during a recession," says Johnson. Being prepared involves presenting a sound business plan with realistic goals and expectations of how much capital is required. "If the firm actually is going to need \$200,000," says Commercial Bank's Judson, "don't ask for \$100,000 and turn around in six months and say, 'I need another \$100,000.' That doesn't speak well for planning."

It is important to focus on why you need the loan, says Karen Neeley, general counsel for the Independent Bankers Association of Texas, in Austin. Is the loan for expansion, for working capital, or for equipment?

"Make an effective presentation, and be sure to include your growth projections for the next 12 to 24 months," she says. In addition, you will want to supply information on the strength of the firm's management as well as its cash-flow projections. "There is a much greater emphasis on cash flow than there was in the past," she says.

Determine your debt-to-net-worth ratio. Your banker will look more favorably on your loan request if your company's debt-to-net-worth ratio compares well with those of other firms in your industry, experts say.

One source of this type of information is *The Annual Statement Studies*, 1990, a publication from Robert Morris Associates, a national nonprofit banking trade association headquartered in Philadelphia. The publication contains composite balance sheets and income data

for more than 360 industries. It is available in most libraries. (It also can be ordered from Robert Morris Associates, One Liberty Place, 1650 Market St., Suite 2300, Philadelphia, Pa. 19103. The price to nonmembers is \$95.)

Keep in mind that the loan officer with whom you deal is not the ultimate decision maker, advises consultant Lister. "The loan request goes to an independent credit department or committee that never meets the business owner and never receives the benefit of all the explaining that took place, for example, about why last year's sales were down." That is why it is important to prepare your loan request thoroughly.



PHOTO: CRICK RAPAPORT

Present a sound business plan, says Oregon banker Don Judson.

Demonstrate that you are ready for the unexpected. "During an economic downturn, we are looking hard at whether a company has contingency plans," says Johnson. Can the company show it is prepared if prices of raw materials change or if certain sales projections are not met?

A company's management ability also is scrutinized. "We want to know if [managers] have been through a recession before and can make the tough decisions that are required during economic hard times," he says.

Consider using the services of a small-business consultant, an accountant, or an attorney. When trying to land financing, says Jacobson, "it helps to have someone support you in finding the right people who might have money to lend."

Now more than ever, bankers are looking for familiarity, credibility, and

some predictability in commercial lending. As a result, there is more emphasis on referrals and relationships.

Be sure to select your consultant carefully. "There are some disreputable people who promise to get you financing after you pay a large up-front deposit," says Lister. "If someone makes this kind of promise, they are misleading you." She says most of her work is done on a contingency-fee basis.

Although commercial banks supply the bulk of the traditional loans for small and medium-sized firms, there are other sources of funds you should pursue if your banker is unwilling to provide the cash.

In fact, being rejected by a banker can work to the advantage of some small firms.

If your business is in a city with a population of 200,000 or more and you have been rejected twice for a loan (or once in a city under 200,000), you can apply for a loan guaranteed by the Small Business Administration (SBA). These loans, which are handled by banks, are guaranteed by the SBA for up to 90 percent of the principal, to a maximum of \$750,000.

The interest rate on an SBA-guaranteed loan is capped at 2 3/4 percentage points above the prime rate. The bank will receive its money from the SBA if the business defaults. In fiscal 1990 the SBA backed 18,301 loans totaling \$3.57 billion. SBA also has some direct business loans targeted at the disabled, veterans, and minorities.

Some 380 small-business investment companies (SBICs) make up another government-assisted source of funds. SBICs are privately operated but have access to federally guaranteed loans that provide long-term financing for investment in small businesses. Minority-enterprise small-business-investment companies (MESBICs) specialize in helping socially or economically disadvantaged entrepreneurs.

Your state also may offer guaranteed-loan programs or other financing help. So be sure to check with the economic-development or small-business office in your state to determine if you qualify for any programs.

In your search for capital, don't neglect the benefit of trade credit, says consultant Lister. In this arrangement, suppliers extend payment terms to a business in order to encourage pur-

chases. "Because their primary interest is in making the sale, they are often more lenient than other lenders," she says.

Another possible credit source is a factoring company, which purchases a business's accounts receivable and immediately advances the owner a percentage of the face value of the receivables, generally about 50 or 60 percent. After the receivables are collected, the balance is released—minus the factoring firm's share, which can range from about 2 to 10 percent of the receivables' face value. Factoring is more costly than a traditional bank loan, though.

Asset-based financing is a growing source of capital for mid-sized firms that have credit needs of \$1 million or more. Asset-based lending is based on collateralization of a specific group of assets.

For example, the lender would lend a company money based on the firm's accounts receivable. Under this arrangement, the lender has exclusive rights to the receivables in the event the firm fails to pay the lender. Asset-based financing generally is used to generate cash for companies while still preserving their existing bank-credit lines, says Jacobson of Grant Thornton.

Most asset-based lenders are looking for companies that put out basic products with a wide market. Because receivables and inventories are so important for asset-based lending, such loans usually are more accessible to wholesalers, distributors, and manufacturers than to service companies.

A potential disadvantage of asset-based loans is their cost. They run two to four points higher than a traditional cash-based loan, says Jacobson.

Capital is never easy to come by for small companies, but today's economic and banking conditions require smaller companies to pay a good deal more attention to their financing needs.

"Lenders really are trying to emphasize quality lending rather than lending to anybody with a good idea," says Jacobson. "That is why it is more important than ever that business have its game plan together. A casual approach just does not work anymore."

It is more important than ever before to come in well prepared, because bankers are hunkered down a little bit during a recession.

—Banker David Johnson

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Benefits Update

Higher prices for health coverage; new rules on retirees; ways to put the brakes on workers' comp.

By David Warner

HEALTH INSURANCE

Costs Rise For Medical Plans

Employers' average cost per employee for traditional health insurance rose to \$3,161 in 1990, an increase of 21.6 percent over the \$2,600 average cost the year before, according to a recent survey by A. Foster Higgins & Co., a New York-based benefits consulting firm.

Premiums for such insurance—also known as indemnity plans—have risen 46.3 percent since 1988, when the average cost was \$2,160 per employee.

Although most of the companies that provide health insurance now require employees to pay part of their health-insurance premiums, employers' health-coverage expenses consume 26 percent of their net profits, says John Erb, a managing consultant with A. Foster Higgins and author of the survey. Results are based on interviews with 1,955 employers.

When the costs of vision care, dental

Health-Coverage Costs Escalate

Employers' Average Total Cost Per Employee
For All Health Insurance



1985	\$1,724
1986	\$1,857
1987	\$1,985
1988	\$2,354
1989	\$2,748
1990	\$3,217

Not adjusted for inflation.
Source: A. Foster Higgins & Co. Inc.

coverage, and health-maintenance plans are included in the calculation, employers' average cost per employee for health coverage jumped to \$3,217 last year, up from \$2,748 the year before. (See the accompanying chart.)

Employers who were surveyed said the principal factors contributing to escalating health-insurance costs are medical price inflation generally, with addi-

tional pressures from large claims for catastrophic illnesses and increased use of mental-health and substance-abuse benefits.

"Controlling medical expenses through traditional health plans has become a losing proposition," says Erb. "Employers who have put off addressing the health-cost crisis will now be forced to consider a managed-care approach." Managed care covers various cost-containment strategies, such as outside review of services rendered by doctors, and health-maintenance organizations that offer all services at a flat yearly rate.

The survey found regional differences in costs, with the Middle Atlantic region reporting the largest increase—28 percent—over 1989 costs and the highest average cost per worker—\$3,500. Employers in the Mountain, South Central, and South Atlantic regions had costs below \$3,000 per employee. The New England region reported an average cost of \$3,343, the Pacific region's cost was \$3,271, and the North Central's was \$3,138.

RETIREE BENEFITS

Accounting-Rule Changes

The financial statements of many companies may look a little bleaker starting Jan. 1, 1993. That's when a new accounting rule on retiree health insurance takes effect.

The rule, approved last December by the Financial Accounting Standards Board, requires firms to carry the cost of future retiree health benefits on their books as a liability. The projected costs will have to be spread over the estimated working lifetime of employees.

Currently, most companies show retirees' health-care expenses only as they are paid.

Companies with fewer than 500 participants in their retiree plans—including active employees not yet eligible for retirement benefits—will have until Jan. 1, 1995, to comply. Benefits consulting firms are urging employers to take steps now, however, to prepare for the new requirement.

Determining liability will require a lot of information gathering, estimating, and reviewing of retiree plans, which in turn could mean added expenses for the services of accountants, actuaries, and benefits consultants.

The rule is "an extremely complicated issue," says Patricia Wilson, a principal in the Philadelphia office of the consulting firm of A. Foster Higgins & Co. She explains:

"You need to understand Medicare, you need to understand health economics, you need to understand Medicare's influence on [retiree plans], you need to understand how [medical] consumption patterns change with age, you need to understand the accounting rules and how they translate into doing health-care evaluations. You also need to understand some things about retirement patterns."

Referring to the time remaining before the new rule takes effect, Wilson says firms should "take the opportunity of this . . . window to think through the issues, to plan well, and then get the data they need. Make a decision that's likely to have a longer-range fix [rather]

than just something that's going to fix this problem but create another one two years from now."

Wilson suggests that companies take the following actions in preparation for the new rule:

- Review retiree plans and obligations. What does the employer contractually owe employees? Can the plan be modified?

- Review plan integration with Medicare. (Medicare pays for most health-care costs for those over 65.) Says Wilson: "The employer's liability is based on the overall consumption [of health benefits] minus the portion attributable to Medicare, minus the portion paid by the retiree."

- Obtain good age-rated claims information. Firms should determine the amount of benefits used by retirees at certain ages.

- Look at the overall retirement-benefits package. Is the package too big or too small to meet retirees' needs? Can retirees pay part of their health-care costs, through a deductible or co-payment, based on their benefits from company savings plans?

WORKERS' COMPENSATION

Tactics For Cutting Costs

Employers are continuing efforts to rein in skyrocketing workers' compensation costs with a variety of cost-containment measures.

The most popular measures, according to a survey of 576 companies by Tillinghast, a risk-management and insurance consulting firm, are safety programs, used by 84 percent of employers; pre-employment screening of prospec-

out double filing, when employees seek reimbursement for medical expenses under both workers' comp and the employer's health-insurance plan.

Few firms attempt such coordination, says Jerry A. Miccolis, a Tillinghast vice president, partly because health insurance and workers' comp are administered by separate departments in many companies.

In Defense Of Screening

The practice of checking individuals' past claims for workers' compensation—a cost-control method used by some companies—has come under attack by labor and consumer groups. They argue generally that such checking is an invasion of privacy and an attempt by some companies to deny jobs to certain classes of workers.

On the contrary, "screening of workers' histories is a necessary tool for employers to ensure they're not getting people who abuse the [workers' compensation] system," says Nancy Fulco, human-resources attorney for the U.S. Chamber of Commerce.

Michael DeWitt, director of marketing for AVERT Co. of Fort Collins, Colo., which provides employers with workers' claims histories and other employee information, says checking workers' compensation data allows employers to "know the truth" about applicants and whether they can "perform the essential functions of the job" for which they have applied.

"Information is not to be used to deny employment to someone simply because they have a workers' comp claim," he says. "It really is a placement tool and also provides the employer with some element of protection against fraud and malingering."

Several states—among them Michigan and Oklahoma—are moving to limit employers from obtaining workers' comp claims data; 38 states provide such data to employers upon request.

CORRECTION

Parental Leave

A bill to require Kansas companies to provide unpaid maternity leave to female employees is pending in that state's legislature. An item in *Benefits Update* in the February *Nation's Business* reported incorrectly that such a requirement is now in effect.

Workers' Comp Keeps Rising

Total Premiums Paid By Employers
For Workers' Compensation Insurance
(In Billions)



1985	\$35
1986	\$43
1987	\$48
1988	\$54
1989	\$59
1990	\$67

Not adjusted for inflation.

Source: The Tillinghast consulting firm

tive workers, including physical examinations and checks for prior workers' compensation claims, 64 percent; and light-duty programs for injured employees returning to work, 62 percent.

Workers' compensation insurance costs to employers are expected to top \$67 billion for 1990, nearly double what they were just five years ago, according to the survey. (See the accompanying chart.) That expense could double again in the next five years, given current trends, the survey concludes.

Of the 17 containment measures identified in the survey, employers rate most of them effective in controlling costs, which are now estimated to account for 2 percent of a firm's payroll. Safety programs are rated effective by 82 percent, pre-employment screening by 67 percent, and light-duty programs by 78 percent.

Among other containment methods, medical-bill and claims-administration audits, litigation management, and fee-schedule compliance are each rated effective by more than 80 percent of the companies that use them.

Another highly rated—though seldom used—cost-containment method involves comparing workers' compensation claims against group health-insurance claims. Such coordination ensures that employees are not filing workers' comp claims when they should be filing health-insurance claims. And it screens

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MANAGEMENT

Ideas That Pay Off

By Skip Berry

As president of Modern of Marshfield, an upholstered-furniture company, William Mork had plenty to be pleased about. Housed in an 80-year-old, wooden-floored building in Marshfield, Wis., his firm made furniture that a national trade survey of retailers ranked among the best. And the company had very little turnover among its 85 employees.

Still, Mork wanted to find ways to

Jay Emling, has been improved employee morale. "It used to be that management dictated to the workers, and the workers were just supposed to work and not think," he says. "But since we started our suggestion program, we've seen several people become interested not only in themselves and their paychecks but [also] in what can happen if they help make the company successful. Those people are becoming a core of

ada, immediate past president of NASS and manager of American Airlines' IdeAAs in Action program, indicate that employees are turning in high-quality suggestions. And companies are listening, he adds. "For American companies to remain competitive with their overseas counterparts, they're going to have to use their most natural resource—their employees," Canada says. "Employers need to listen to the people who have worked on jobs day in and day out, who can suggest better ways of producing manufactured goods and of providing service."

One employee at Modern of Marshfield who saw a better way of getting a task done was Paul Steines. Dissatisfied with what he regarded as inconsistency in lengths of the sofa fabric that his department received from Modern's sewing operation, Steines suggested making a minor change.

"We were supposed to get fabric that was seven yards long," says Steines, noting the material received was sometimes shorter or longer. "My suggestion was to cut it down from seven to six-and-a-half yards, which was long enough for us to use but which would make the sewers have to measure more accurately."

Steines' simple solution to the fabric-waste problem will save Modern an estimated \$857 during the year. What's more important, says Emling, is that the acceptance of the idea motivated Steines to continue making suggestions.

Communication is a key factor in the success of a suggestion program, Emling says. Prior to Modern's suggestion program, it was easy for a manager simply to reject an idea without really thinking about it. But a hasty, inconsiderate rejection of an idea can shut down an entire suggestion program.

William Sanders agrees. He is controller of Target Tech, Inc., a Kent, Wash., company that has 70 employees and manufactures strobe lights and backup alarms for construction equipment. He also directs Aim for Ideas, a suggestion program started in October 1988 for the company's 55 nonmanagement employees. "The impact on employees is positive," he says. "Our program gives them an avenue for turning in ideas that weren't there before."

Moreover, now that each manager in

make the company even better. He just wasn't sure how—until he and four other Modern executives attended a quality-improvement seminar in 1988. When they returned to the plant, Mork and his colleagues initiated a quality-improvement program at Modern, and a major component of the effort was a traditional employee suggestion system.

Since October 1988, Modern's employees have been encouraged to submit ideas for ways to cut costs, improve production time or product quality, and enhance working conditions. In the program's first year of operation, the company received 183 suggestions, and those that were implemented saved the firm an estimated \$65,000.

A less tangible but no less important result, says Modern's Vice President

Modern of Marshfield's Jay Emling, Paul Steines, and William Mork.

future leaders. We hope to keep getting more."

Modern's experience is part of a growing trend among American businesses to get employees more involved in day-to-day operations. The National Association of Suggestion Systems (NASS), a Chicago-based, not-for-profit group that represents companies regarding their suggestion programs, recently reported that in 1989 its 900 members received nearly a million suggestions from employees. More than 32 percent of those suggestions were adopted. And for the third consecutive year, the member companies said they had achieved at least \$2 billion in cost savings as a result of those suggestions.

Statistics such as these, says Jim Can-



PHOTO: CRYSTAL WOLF

Skip Berry is a free-lance writer in Indianapolis.

More and more U.S. firms are encouraging, rewarding, and adopting employees' suggestions—and saving money as a result.

the company can evaluate any suggestion regardless of the department from which it came, says Sanders, ideas are considered more carefully than they have been. In the program's first full year of operation, he says, half of the 40 ideas submitted were implemented, resulting in approximately \$20,000 in savings for the company. One idea alone from a production department employee resulted in estimated annual savings of \$12,000.

The program at Target Tech also gives employees recognition—an essential element in motivating employees to take part in suggestion programs. Target Tech employees whose ideas are implemented receive cash awards of \$25 to as much as \$50,000, says Sanders. The highest award so far has been \$2,500.

At Modern of Marshfield, says Emling, employees who submit ideas that result in a cost savings receive 10 percent of the first full year's savings. Another 10 percent is put into a pool that is divided equally among all employees whose ideas were implemented during a calendar year.

But money isn't the only form of recognition that employees value, say both Sanders and Emling. At Target Tech, employees whose suggestions are implemented are featured in the company newsletter. At Modern, those whose suggestions have been adopted are recognized at a monthly luncheon for all employees. Moreover, the employee whose idea is chosen as the best one submitted during a given month is designated Modern's Colleague of the Month, receives a gift, and is allowed the use of a special parking space in the company lot. At the end of the year, one of the 12 Colleagues of the Month is chosen as Colleague of the Year; last year's winner was awarded a trip for two to Las Vegas.

One benefit of an employee suggestion program is creation of an open-door policy between management and labor, says Russ Yeager, manager of human resources for Adalet-PLM, a Cleveland-based manufacturer of aluminum castings used in electrical and mining hardware. Adalet-PLM's Error/Cause/Identification (ECI) Suggestion Program, begun seven years ago, helps the company maintain a good working rela-

tionship with the employees' union, says Yeager.

As is true at both Modern of Marshfield and Target Tech, Adalet-PLM's suggestion program is part of a larger emphasis on quality control and improvement. To be considered, employees' suggestions must result in cost reductions, safety enhancements, or greater production efficiency, says Yeager. "They can't just submit job-re-

business to the largest corporation in the world. Small and medium-sized companies can apply employee suggestion programs and be very successful. It's a small concept—listen to your employees. Every company can benefit from it."

Consider Eastman Kodak Co., which boasts having the oldest employee suggestion program still in operation. Established in 1898, that program's first



PHOTO © BRUCE ZANE

Adalet-PLM employee John Thompson and manager Russ Yeager.

lated gripes or complaints. A suggestion has to have some discernible benefit to the company."

Over the course of a year, Yeager says, an average of 120 of Adalet-PLM's 190 employees participate in the ECI Suggestion Program. Last year the company implemented 40 percent of the 650 ideas submitted, and as a result it saved more than \$100,000. "Having a suggestion program in place makes our employees more conscious of what's going on around them," says Yeager. "It also gets people throughout the company involved with one another."

And that's valuable regardless of the size of the company, declares Jim Canada of American Airlines. "You can have employee involvement from the smallest

suggestion came when a worker dropped a card into the company's new suggestion box proposing a way to improve his work area: "Wash the windows." These days employees' suggestions—while perhaps as direct—may significantly affect a firm's productivity.

Because the marketplace is becoming both more global and more crowded, says Canada, every U.S. company should be striving to benefit from its employees' ideas and insights. "The business culture today reflects a need for managers to recognize and be receptive to the excellent ideas of their employees," he says. "We're not just paying people for their brawn anymore; we're paying them for their brains. American companies are just now waking up to the reality that they need to listen to their employees to remain competitive."

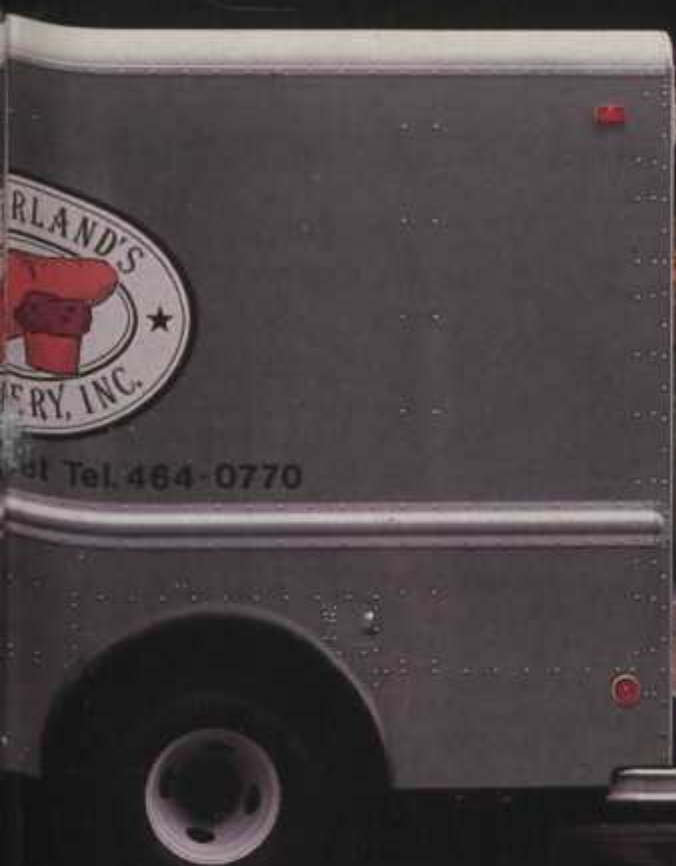


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Family Business

Advice from students; guidelines for family-firm shareholders; a succession plan that may not succeed.

COMMENTARY

Messages From Your Children

By Sharon Nelton

Count on Pat Frishkoff to come up with an unusual assignment. The head of the family-business program at Oregon State University in Corvallis, she recently asked each of the students in her class on family-business management to prepare a list of 10 items of advice addressed to someone in a family firm.

Frishkoff has sent us the students' responses. We get a lot of advice from consultants and older members of family

times, but she is supporting him in the best way she knows how."

To business owners: "Make time for your family. You may feel you need to spend all your time at work for their sake, but what they really need is you."

To sons-in-law: "Remember that your boss is your wife's parent. Do not expect support from your spouse if you really start coming down on the boss."

To a daughter: "Always be yourself. Since you are not a man, there is no need to try to act like one. Women have many positive attributes they can bring to the business."

To a father: "As your employee, I accept that you can tell me what I should do, but you must also accept that, as your son, I may occasionally tell you where to go. When conflict arises between us, don't take it to heart.

Like genes do not imply complete and total harmony. (The first law of genetics: 'Mendel studied pea plants, not family members.')

To daughters-in-law: "Never use your children as pawns in any family-business power struggle. Even if your husband is fighting with his father, take the children gladly to see their grandparents. Even if he is fighting with his sister, keep communications open between the cousins. Let the children make their own decisions about people as they grow up."

To stepsons: "Never go shopping with your stepfather, especially if he has horrid taste in clothes. When he sees you buying high-quality clothes, he will think he is overpaying you. If you absolutely must shop with him, buy the polyester suit he recommends and return it the next day for the good wool one."



Let's hear it
from the young
people.

—Sharon Nelton

businesses, she says. "Isn't it time we looked to the next generation?"

OK, let's hear it from the young people. The ones in Frishkoff's class are seniors and graduate students ranging in age from the early 20s to the early 30s. They are sons, daughters, sons-in-law, and stepsons of family-business owners. Here's a sampling of what they said:

To a son: "When you are working with your father, make sure that communication between you is clear and to the point. Conveying ideas accurately is very important. Too many times we take for granted that we know what our father means and vice versa."

To a brother: "Don't be discouraged now that your closest friend, your brother, includes his new wife in his decisions about the business. She may seem to be pulling him away from the business at

PLANNING

Being Responsible Shareholders

By Craig E. Aronoff and John L. Ward

Bill G. inherited one-eighth ownership of a business founded by his grandfather. His brother and cousin run the business. A high-school teacher, Bill keeps up with the business as best he can. His ownership represents a substantial portion of his net worth, and his family's legacy is a source of great pride to him.

However, Bill is concerned about a slide in the company's performance over the past year and wonders if its managers are doing the best job they can.

Bill wants to be a responsible minority owner, and, like many family-business shareholders, he wonders how to do that.

Perhaps you are in a similar position.

Individual ownership of a portion of a business represented by shares of stock is one of capitalism's great inventions. But shareholder roles and expectations vary broadly—especially in family firms.

Family members who own stock may or may not be active in the business. They may or may not be knowledgeable about it or understand business in general. They may be at various stages of life, with differing goals and needs.

We believe that understanding ownership responsibility—especially for those not active in the business—is absolutely crucial. To us, responsibility means accepting the consequences of your decisions and actions. In a family firm, that often means balancing individual interests with the broader interests of the business and the family.

If you are a family-business shareholder, we suggest you use the following four questions to guide you:

1. Do I have the information, knowledge, and understanding to participate meaningfully in shareholder decisions?

Shareholders who are active in managing the family enterprise typically have a more complete understanding of the business than those who are not. If you are not active in the company, you

need to familiarize yourself thoroughly with all available information about the business. At shareholder meetings and other appropriate times, ask questions designed to further your understanding. And educate yourself sufficiently to understand the information you get.

2. What will be the long-term consequences of my decisions or actions?

Among the special benefits of family business is its long-range orientation.

But patience is a learned virtue. A vibrant family business gives its owners many opportunities to practice implementing long-term perspectives, forcing them to face questions such as: How much should we pay in dividends and how much should we reinvest in business strategies for the future? How hard should I argue for my viewpoint instead of compromising for the sake of future harmony?

While trade-offs often are not clear-cut, consideration of long-term consequences leads to responsible decisions.

3. What effect will my decisions have on others who are involved?

You and the other shareholders have great legal power to dictate the business's direction. Responsibility demands, however, that you consider not just your own desires but the impact of decisions on all who are affected: the active managers of the business, other minority shareholders, employees and their families, the community, suppliers, customers, and other members of your family.

Just as you must make difficult trade-offs between present and future, you must also make trade-offs among various constituents. Money donated to charity, for example, is not available to increase employee salaries. While not always directly involved in such decisions, responsible shareholders gain skill at thinking through trade-offs.

4. Am I willing to share my thinking and decisions openly with those affected by them?

Not every action or decision has to be

an open book; openness sometimes brings more harm than good. But we do encourage careful consideration of two questions for every difficult decision: First, if everyone affected by the decision knew about it and the thinking behind it, would I still be personally proud of it? And second, if I am reluctant to share the decision and my thinking openly, why?

We find more openness in the most effective managers and owners we know. They understand that others cannot make plans or commitments when they are kept in the dark. They believe that trust created through openness is well worth some risks.

As a knowledgeable and responsible shareholder, you can be a great asset to your family business—by serving as a source of balance and perspective and by being an advocate for the business within the family and the community.

The responsibilities of understanding, long-term perspective, consideration of others, and appropriate openness prove too great a burden for some. Others find responsibility too difficult to teach, and they restrict ownership to family members in top management positions. Some see ownership as an opportunity to think about and learn responsible behavior, and they cherish this challenge.

Most all believe that we are blessed to live in a private-enterprise society where we have the choice.



PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta Professor of Private Enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

Privileges Mean Duties

The benefits and privileges of being a family-business shareholder imply specific duties. We suggest that you:

- Be conscientious about estate planning. Share your plans with heirs and others who will be affected by them.

- Respect organization channels. Go to the board of directors, the chief executive, or the officially designated shareholder liaison with your concerns or questions. Don't call the vice president of purchasing to suggest a better vendor.

- Be prepared to handle the necessary affairs in case of the death or incapacitation of a family member.

- Draw up and abide by a family code of conduct and a creed of business ethics. Concern for family harmony, personal ethical behavior, and corporate social responsibility can affect generations to come.

Mark Your Calendar

April 7-10, Aspen, Colo.

The Aspen Family Business Conference focuses on 10 essential qualities shared by successful family businesses. Contact the Bork Institute for Family Business, 117 Aspen Airport Business Center, Suite 201, Aspen, Colo. 81611; (303) 925-8555. To be repeated July 18-21.

April 18, Cromwell, Conn.

"Sharing Leadership" is a conference featuring members of the Sonnabend family of the Sonesta International Hotels Corp. as speakers. Contact the Middlesex County Chamber of Commerce; (203) 347-6924.

April 20, New York

"Business Strategy and Family Mission," a seminar that looks at how family values can affect planning. Contact LaVaun Eustice, Family Enterprise Project, Management Institute, New York University, 48 Cooper Square, Room 108, New York, N.Y. 10003; (212) 998-7218.

April 28-May 1, Santa Barbara, Calif.

"Planning for Continuity" and "Women in Family Business" are concurrent programs offered by the Owner Managed Business Institute. Contact OMBI at 226 E. De La Guerra St., Santa Barbara, Calif. 93101; (805) 564-8380.

May 13-18, Utah

A "Career Development Wilderness Program" combines activities in Utah mountain and desert country with a personal-development program for current and future leaders of family businesses. Contact Roger Peay of Dyer, Peay & Associates, 2696 N. University Ave., Suite 290, Provo, Utah 84604; (801) 375-0751.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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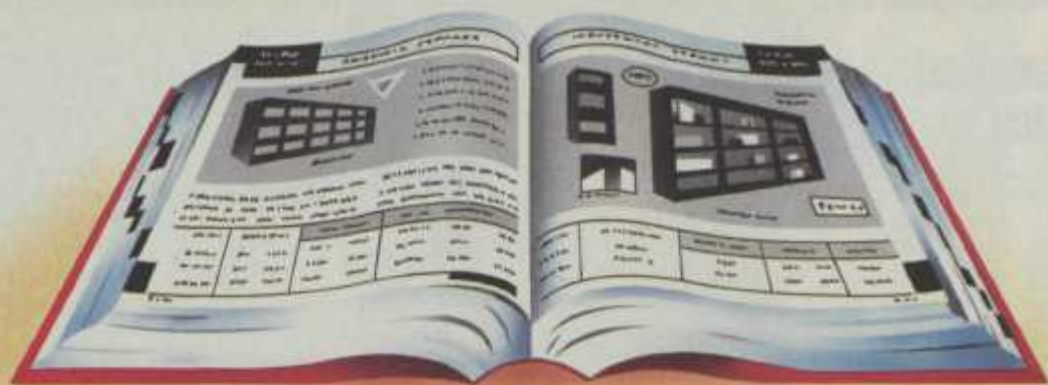
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CASE STUDY

A Future Menaced By Bankruptcy

At 62, Roy Warner wants to retire. He thought everything was proceeding smoothly in that direction, but today he learned that his largest customer has filed for bankruptcy protection. The customer owes Roy's company \$800,000—that's one-third of Warner Products' net worth.

Roy has worked 35 years to build his father's small lumberyard into a \$25-million-a-year distributor of building products. He is proud that five of his 11 children are active in the business—four sons in sales and one in the warehouse.

His "succession plan" has been to distribute ownership equally among all the children. He began a stock gifting program several years ago, and the children now own 30 percent of the company.



ILLUSTRATION: DAVID CHEN

Roy felt that on his retirement, management decisions could be made by two long-term key nonfamily executives until the active sons, who range in age from 24 to 31, could take over.

However, Roy's wife, Norma, has been concerned that "the boys" aren't ready for Roy to retire. There are no specific plans for them to assume management responsibilities. When Roy's

ownership drops below 50 percent, she wonders, who will control the company? What if something happens to Roy before he finishes the gifting program?

Norma is also worried about friction that already exists among the five active sons. And she is concerned that the six "inactives" will not receive fair treatment from the "actives."

Roy and Norma are dependent on the continued success of the business for their retirement income. Now the customer's bankruptcy threatens not only Roy's plans for retirement but his and Norma's security as well.

Roy is angry and confused. He trusted his key executives to manage the company's receivables. If this can happen now, what could happen after he retires?

The sons in the business have told him they are glad he is still there to handle the crisis. That isn't what Roy wanted to hear.



PHOTO: CRAIG GEND

A Helpful Catalyst

Mike Cohn, president, The Cohn Financial Group, a Phoenix family-business consulting firm, and author of Passing the Torch: Transfer Strategies for Your Family Business (Tab Books, 1990):

The customer's bankruptcy magnifies unresolved issues that must be addressed: the sons' lack of management readiness, the questionable wisdom of

the gifting program, poor communication, and the possible impact of the bankruptcy on Warner Products' cash flow.

Roy's first step should be to discuss his concerns with his family. He needs to develop a plan for the sons to take over active management of the company.

As a large creditor of the bankrupt customer, Warner Products will be on a committee with other creditors to analyze ways to collect some of the money they are owed. Roy can invite the sons to participate with the company's chief financial officer on the creditors' committee to gain some valuable business experience. The sons should also be asked to analyze how the bankruptcy will affect the company's cash flow.

This could be an excellent time for the active sons to buy out their siblings and parents, thus ending the gifting program. The company seems to lack direction, and the value of its stock could be at an attractively low price. What's more, a buyout would provide Roy and Norma with a retirement income and could eliminate future conflicts between active and nonactive shareholders. It should also motivate the active sons to make a real commitment to the business.

The sons should clarify their roles to avoid future conflict over who's doing what. Include the key nonfamily executives in these deliberations, and implement employment contracts that will benefit them and serve as an incentive for them to stay with the company.

Properly managed, the bankruptcy could be a catalyst for Warner Products to make some needed changes.



PHOTO: LAURA BRIS

Don't Assume—Communicate

Leslie Dashew Isaacs, a family-business consultant and partner in the Family Business Institute in Atlanta:

No one—not Roy, "the boys," or the business—is prepared for Roy's withdrawal from the company.

Underlying all of the issues and potential problems (for example, conflict among siblings) is a lack of communication and planning. Roy has not adequately conferred with his family or his key employees about his vision or his strategies. Both he and Norma are making assumptions about the children's goals, the managers' continuing commitment to the firm, and how well the managers and the children are equipped to handle the business. They are beginning to see the danger in assuming rather than communicating.


Roy and Norma need to have a long talk about their goals and what each envisions about retirement. (They may be surprised by how different their views are.) Roy can then develop a financial plan to assure a secure retirement.

Next, they should meet with the active sons and key executives to draw up sound business and succession plans (including developmental plans for future leaders) and to discuss everyone's roles in implementing these plans.

Finally, a family meeting should be conducted, including all 11 children, their spouses, and Norma and Roy, to discuss plans for the family business, estate plans, and the parents' goals. It's important to discuss their visions for the family, the values and traditions that make their family special, and how to keep communication flowing and relationships strong. A family council could be formed to discuss issues that arise in the future.

The process of communicating widely before taking action is sometimes foreign to entrepreneurs, but it is essential to transferring businesses and dreams from one person to many, and from one generation to the next.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Johnstown, N.Y.



These Days When A Worker Has An Accident, Everybody Gets Hurt.

The Workers Compensation System was designed to help injured workers get well, and return to work. In most states, it does. In other states, the problems aren't simply big. They're enormous.

And beginning to spread into other states. Right down the line, everybody's starting to feel the effects—from the workers, to their families, to the employers, to the insurers.

The System

Over 75 years ago, when it was created to protect workers from on-the-job injuries, Workers Compensation was based on some well-intentioned and well-received ideas:

- To prevent work-related accidents from ever happening.
- To give prompt, quality medical attention and equally prompt income benefits.
- To rehabilitate injured workers and help them get back to work.
- To offer cost stability to the employer.
- And ultimately, to keep the entire workplace productive—the less down-time, the more time you have to be competitive, and stay competitive.

The Obstacles

It bears repeating: There are problems. Big problems, in many states, that need fixing. We also need to strengthen the system so that these problems don't spread to other states.

Problems like unnecessary, time-consuming litigation. Soaring claims costs. Underfunded, understaffed state-administered agencies. And on a national level, runaway medical costs.

Fact is, the economies of entire states are hurting—partly because

businesses won't relocate in places where Workers Compensation is in disarray.

For some states, the situation is so critical, insurers have stopped writing Workers Compensation Insurance altogether—premiums won't even cover losses and expenses.

The Way To Help

What can you possibly do to help? You'd be surprised. To help restore and strengthen the system in your state, you can take two courses of action.

First: Be aware. Find out what's happening in your state, how you're affected, and what you can do to help. Talk to your insurance company or business trade association.

Or two: Share your views by writing to Gary Countryman, President and CEO of Liberty Mutual, 175 Berkeley Street, Boston, MA 02117. We'll help you get in touch with people in your state who can help.

When strong and fit, the Workers Compensation System works hard, and works well. Everyone it touches, it benefits—especially the injured worker.

Which is why, considering all it stands for, we should do everything possible to keep it standing.



Help Strengthen Workers Compensation.

Ten Keys To Success In Family Business

Here are traits that profitable, enduring family firms have in common.

By Sharon Nelton

When David Bork moved his family-business consulting practice from Frederick, Md., to Aspen, Colo., several years ago, it meant moving the case files for 250 families who had been his clients.

He recalls saying to himself, "You know, there must be something in these boxes." There was. Reading through the files, Bork began to identify qualities that are shared by successful families in business, and he drew up a list of 10 such traits.

"These qualities are critical to ensuring success, profitability, and longevity of the family business as well as the happiness, fulfillment, and future of the individual and the family unit," says Bork, who has been working with family firms since 1970.

Last summer, Bork and a team of other family-business consultants launched the Aspen Family Business Conference, a program based on the traits that Bork found. The conference will be repeated in April and again in July.

Here, in brief, are the qualities that Bork feels are essential to families in business:

1. Shared values. Usually this means shared values about people, work, and money. And if you have the same views and attitudes about these three areas, says Bork, you can have a shared vision. "If you as a family have a shared vision of the future of your company," he adds, "then you go forward together."

When you look at business families that fall apart, such as the Bingham newspaper family of Louisville, Ky., Bork says, you find that family members do not have a shared vision. As a result, they tend to fight about all three issues.

"So one of the tasks at hand for each and every family in business is to develop a shared vision in order to focus on the future," says Bork.

2. Shared power. This is not the same as "equal power." According to Bork, it means respecting one another's talents and abilities across generations, between spouses, and among siblings. "If I am the brother that has the best

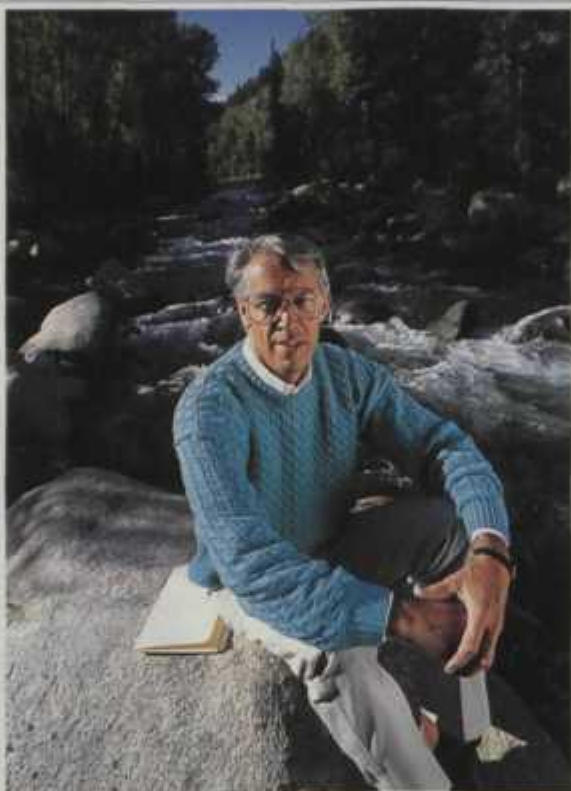


PHOTO: DAVID HERN—PHOTOGRAPHERS/ASPEN

Consultant David Bork of Aspen, Colo., has identified qualities shared by families successful in business.

financial understanding and you are the brother or sister that has the best operating insight, then you should defer to me in my area of expertise and I would defer to you in your area," says Bork.

3. Traditions. Every family has traditions that set it apart from every other family, Bork maintains, and it's important to renew those traditions because they keep your family bonded together.

In his own family, Bork and his siblings grew up liking cranberry sauce on top of pumpkin pie because their father liked it. (Bork calls it an "extraordinary combination.")

During a family gathering last year, Bork arranged for family members to have the dessert that his late father so enjoyed—pumpkin pie with cranberry sauce on top.

"We sat around the table and told stories about my father, and there

wasn't a dry eye at the table," he says. "It was part of our tradition."

4. Willingness to learn and grow. "The family that is open to new ideas and new approaches is one that, as a group, can solve virtually any problem," says Bork.

He recalls one business family he worked with where there were three married daughters in the second generation and nine young cousins in the third generation. Bork encouraged the cousins in the third generation to form a "cousins' council" and also to initiate a "learn and grow" process.

Under the latter, the family had a gathering during which it brought in a marine biologist just so the family could learn something different together. At later meetings, they brought in anthropologists, archaeologists, and other specialists.

One daughter's husband died unexpectedly. In the subsequent stress, old conflicts between two sisters re-emerged, resulting in one trying to force the sale of the \$150 million company. But the cousins decided they could not let the warring between their mothers result in the sale of the company. They banded together and successfully prevented the business from being sold.

"Because those nine children had been able to learn together and to learn about how they learn, they were able to confront a crisis situation and to find a reasonable, rational solution," says Bork.

"As families," he adds, "you can find many delicious opportunities to learn and grow together, and that carries you through the times when you have differences of opinion."

5. Activities to maintain their relationships. You can't talk about business all the time, Bork cautions. Essentially, families that play together stay together. Taking time to have fun together, he says, is like putting "money into the bank in terms of your relationship with your family members so that you can draw on the currency when the times are tough."

The enjoyable times can, for example, help family members sustain their rela-

tionships when their opinions differ.

6. Genuine caring. This means openly expressing feelings of concern for other family members.

One way to let others know you care about them is to give them your undivided attention from time to time, says Bork. "That's the best gift you can give to a family member." He suggests taking time to write a postcard, telephone someone, or stop for a cup of coffee with another family member.

7. Mutual respect. "If you don't have mutual respect, you can't do a business together," says Bork.

In his view, mutual respect is built on the trust that comes from knowing you can depend on other family members and they can depend on you.

8. Assisting and supporting one another. "Family members that stay connected to one another assist and support one another, especially during times of grief, loss, pain, and shame," Bork maintains. Even if you don't like what another family member has done, you can still be supportive of that person. "Families that run from the family member who's having trouble don't stay together," Bork says.

As families, you can find many delicious opportunities to learn and grow together, and that carries you through the times when you have differences of opinion.

—Consultant David Bork

9. Privacy. Families in business are notorious for their togetherness. But Bork says it's essential to respect one another's individual privacy as well as the privacy of each family unit within your extended family.

If one family member steps over the line in asking you about personal concerns, it's OK to say, "That's a private matter."


10. Well-defined interpersonal boundaries. Perhaps the most common

family-business relationship problem occurs when there is a conflict between two family members, says Bork.

One member involves a third, saying something like, "Do you know what Charles did to me?" The third person, needing to resist getting caught in the middle, can establish a boundary by saying something such as, "I'm really sorry he did that to you, but you know, you're going to have to work that out with Charles."

Your family may have many of these traits, or it may have all of them to some degree. By understanding the ones you have and the ones you'd like to add, Bork suggests, you can begin to strengthen your family bonds and your business success.

The Aspen Family Business Conference will be held April 7-10 in Aspen, Colo., and July 18-21 in Snowmass Village, Colo. For more information, contact the Bork Institute for Family Business at Aspen, 117 Aspen Airport Business Center, Suite 201, Aspen, Colo. 81611; (303) 925-8555.

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An "Instinct" For Computer Success

By Banning Kent Lary

A tint of campfire ash discolors the branding iron in the foyer of Michael Dell's office suite in Austin, Texas. A gift from his advertising department, the long iron shaft ends in the "DELL" corporate logo that was seared on the side of a computer for a magazine ad.

In high-tech Texas these days, entrepreneurs are putting their brands on computers faster than cowboys branded cattle during the King Ranch era. Among the leaders of the trail drive is Dell Computer Corp., a \$546 million company that was a university student's sideline only seven years ago.

"One of the things I benefited from when I started this business was that I didn't know anything," says Michael Dell, now all of 26. "I was just instinct

with no preconceived notions. This enabled me to learn and change quickly without having to worry about maintaining any kind of status quo, like some of my bigger competitors."

Dell entered the University of Texas in 1983 as a biology major planning to follow his father into medicine. But he had been fascinated by computers since junior high—where he belonged to a computer club—and in college he started doing business under the name PC's Limited, selling disk drives and other components he bought at cost from local dealers with surplus inventories. His first customers were friends and colleagues at the university, who gave him favorable word-of-mouth advertising. He was a one-man show—buying parts, running down sales leads, selling parts, installing parts, studying computer design at night.

Dell found he could buy stripped-

Michael Dell says that was all he brought to the company he started in his college dorm. It was enough to lead to \$546 million in annual sales.

down versions of IBM computers and add components that would "supercharge" them, much as kids would supercharge Pontiac GTOs or '57 Chevs in the 1960s. Dell's supercharged computers handled more data faster and could be individually tailored to meet a business's data-processing needs.

By early 1984, Dell was selling \$50,000 to \$60,000 worth of customized computers and parts a month, working part time out of his dorm room, and he had gotten excited by the possibilities in his new enterprise. "I had to give it a full go and see what happened," he says. "I couldn't resist the opportunity." He made a bargain with his parents: "The deal was, I would start into business full time in May, and at the end of August we would take a look and decide if it was doing well." He would return to school if it was not.

When he left school after his first year and incorporated in May 1984, Dell began building complete systems for small businesses, doctors, and lawyers, getting half the money up front so he could buy the components. He set up a one-room office in town and hired friends to help put the computers together. Every dollar he earned he plowed back into salaries and inventory. Using his small-business customers as references, he made sales to local agencies and college departments.

"We sold \$180,000 worth of 'box' [computer hardware] the first month," Dell says, "then \$265,000, and after nine months had sales of \$6 million. It was very rapid growth." By January 1985, Dell had 39 employees.

Dell advertised in national personal-computer magazines to attract small and medium-sized PC users. Customers called an 800 number and ordered customized machines, selecting speed and memory features, disk drives, and other peripherals. Because Dell's customers bought from the manufacturer, they got more computing muscle for the dollar.

Then the problems began. Computers bought through the mail had to be returned through the mail for service, and customers got angry when they had to ship their computers back to Dell. And for many small businesses that had come to depend on their computers, doing without them while they were being serviced was a costly shock.



PHOTO: ©BOB DRENNICH

At the age of 26, Michael Dell heads an Austin, Texas, computer company that ranks among the industry's leaders.

"We had two options," Dell says. "We could train and man a national service force—a very expensive proposition. Or we could make a deal with someone who already had such a force and provide training to their people to fix our computers." Dell made a deal with Honeywell Bull and had a repair force in the field almost overnight. (In March 1989, Xerox began making Dell's repairs.) Business customers began to love Dell's next-day on-site service provided by Honeywell Bull and the toll-free technical support set up by Dell.

"Ninety-three percent of the time we are able to solve the problem right over

were much delayed in going into production. At the same time, Dell was expanding into Europe.

All these factors combined to dry up the company's cash, and to send profits and earnings reeling. Net income in fiscal 1990, which ended in January 1990, was \$5.1 million on sales of \$388 million, down from net income of \$14.4 million in 1989.

"Sometimes you just have to belly up to the bar and take a chance," Dell says. "We made some mistakes, but we also had the strength to work our way out. We now work more closely with our

trying hard to change. Last fall, for instance, Dell introduced a new line of tower computers (components stacked vertically) and desktop models as well as support products such as a "drive-away," which permits access to several disk drives simultaneously.

Many of Dell's new-product ideas come from comments received on "Dear Michael" response cards sent in by customers. Besides being a valuable source of marketing information, these suggestions have resulted in hardware design changes such as quieter and more reliable hard drives, and stiffer, less mushy keyboards; and in ancillary improvements like easier-to-read documentation—all helping to authenticate the company's slogan: "When you talk, we listen." Dell computers constantly rank high in customer-satisfaction polls conducted by industry analysts and computer magazines.

In addition to high-quality hardware and comprehensive service and technical support, there has been another key element in Dell's success: custom configuration of personal-computer systems. Says Michael Dell: "You tell us what you want—how fast you want the programs to operate, how much memory, how expandable—and we will build it for you and ship it out, usually within three days. And if ever you have a question or a problem about your system, you call us direct. We take direct responsibility for the complete satisfaction of each and every customer."

Such questions are answered by hundreds of headset-wearing telecommunicators at Dell headquarters in Austin. Those employees go about their jobs with youthful enthusiasm—at Dell, wages are good and prospects for promotion excellent. While many companies are laying off workers, Dell has been hiring; it increased its work force by more than 240 employees last year.

"It takes a rather large organization to deal direct with hundreds of thousands of customers," says Michael Dell. "There's been a shift from hiring lots of people in the middle to hiring lots of people at the entry level. They don't have to have experience, because we've got a new thing, and we can train them and get them going. We have a very active program of promoting people from within."

Dell believes in hiring talented people and giving them defined responsibilities, with enough authority to carry them out. He also believes in minimizing the number of layers of authority, thereby encouraging exchange of ideas and cooperation.

"One of the typical battlefields in a high-tech company lies between R&D and manufacturing," says Dell. "The

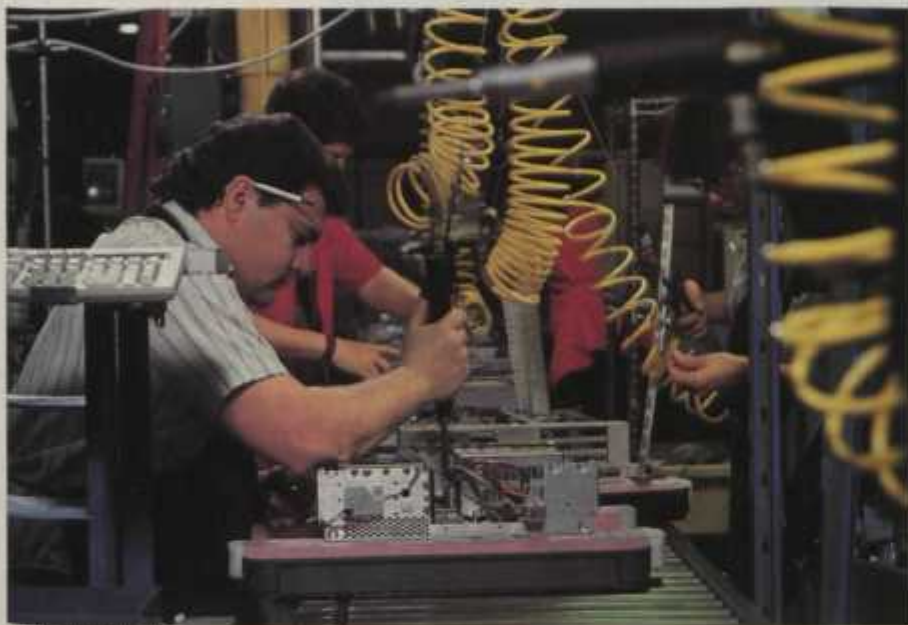


PHOTO: CHRIS SAENHERRICH

Dell Computer suffered because it was slow to offer computers using the 386 chip—a Dell worker assembles one here—but it has since recouped.

the phone in about six minutes," says Dell, whose company handles about 8,000 sales and service phone calls a day.

With service problems under control, Dell's marketing efforts took off, attracting customers with lavish print advertising and heavy trade-show exposure. Net sales grew from \$60 million in fiscal 1987 to \$159 million in 1988 to \$257 million in 1989. Then the company took some hits.

Spurred by an optimism that grew from surplus revenues and a successful initial public offering in June 1988, Dell Computer acquired too many high-priced memory chips (DRAMs), which depreciated in value as prices fell on the world market. Dell also was conducting a huge research and development push into multitask processing and RISC (reduced instruction set computing) system development; that effort was later postponed. In addition, the company was slow getting into the 386 chip market—it had bet on the advanced 486s, which

suppliers and maintain only a 10-week supply of parts. Our real mistake in R&D would have been to make the RISC [computer] when we found there was no market."

Dell Computer gives every sign of having recovered from its troubles. In the year just ended, Dell posted earnings of \$27.2 million on sales of \$546 million—up 41 percent from the year before.

Dell's European operations are also doing well. Sales from subsidiaries in the United Kingdom, France, Germany, and Sweden contribute about one-third of the corporation's annual revenues. It has just entered Italy, Europe's fourth-largest computer market, and it will start shipping Dell computers from an assembly plant in Ireland this year.

Despite its remarkable growth, some critics in the industry scorn Dell Computer as being nothing more than an assembler of IBM clones with no interest in innovation—an image that Dell is

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LESSONS OF LEADERSHIP

R&D guys make a product and say, 'OK, this one's done.' The manufacturing guys see it and say: 'What are we supposed to do with this?' At Dell, all R&D managers and all manufacturing managers report to one person who makes sure that each side sees the other side's problems and challenges. They empathize. They work together as a team."

Dell has achieved growth in a very competitive market, often at the expense of older, more established computer makers. Dell Computer in 1990 owned 1.3 percent of the \$24.2 billion American PC market, gaining ground on industry giants such as IBM (19.7 percent), Apple (8.9 percent), and Compaq (6.6 percent). That 1.3 percent "doesn't sound like much," says Brian Fawkes, Dell's spokesman. "But when you compare Dell's 1,500 employees with IBM's domestic 200,000, the figure shows that Dell is doing well."

The company continues to target its direct-sales effort at major corporate customers, government agencies, and educational institutions, which altogether now account for roughly 45 percent of domestic sales. Dell has never sold its computers through stores of its own, but it recently made an exclusive retail agreement with Soft Warehouse, a Dallas-based discount computer chain; potential customers will now be able to "test drive" Dell computers before they buy. Soft Warehouse will buy from Dell in quantity and offer the computers at the same prices available to mail-order customers.

"This will enable us to reach more entry-level computer buyers," said Joel Koehler, Dell's senior vice president of U.S. sales and operations. "Up until now our strategy has been designed to reach advanced users who have some experience with owning computers." Dell hopes this alliance will increase gross revenues by 20 percent.

That could mean still more hours on the job for Michael Dell. He works 16 hours a day, leaving him little time to enjoy his personal fortune—he is worth around \$140 million at current stock prices—or for his family life, which he prefers to keep private. He will say that he likes to spend time with his recent bride, and he bicycles to keep fit. "As far as that is concerned," he says of his personal life, "I'm pretty average."

As far as the future of computers is concerned, Dell says, "I think the '90s are going to see a greater integration between the human mind and the computer. Today, you have to communicate with a computer by a keyboard that is somewhat awkward and clumsy. We are working on other ways to do this. The best computer is the one you don't even know is there."



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MANAGEMENT

Know The Rules On Pay And Hours

By Kent Banning

Mary Jones, a salaried employee of a small New England steel fabricator, asked her boss if she could arrive at work 30 minutes early every day so she could ride to the plant with her husband. The employer agreed, and she came in and started work early for a year and a half.

Sometime later the woman was fired, and she filed a federal wage-and-hour claim seeking back pay for the 30 minutes she had come in early each day. The plant manager had assumed—erroneously—that because she was salaried, she was exempt from federal wage and hour laws and thus was not entitled to the extra pay. It's a common assumption, and it can be expensive. The former employee won her back pay.

Each year, 75,000 claims—many as unforeseen as Mary Jones'—are filed with the Department of Labor under the Fair Labor Standards Act, the 1938 law that established the minimum wage. That law, amended over the years, focuses mainly on wage-and-hour matters such as overtime rules and workweek definitions; it originally applied to companies in interstate commerce but now encompasses almost all firms.

As a result of claims filed under the law in 1989, employers paid out \$122 million in wage-and-hour awards to employees. Although the number of claims has remained relatively constant in recent years, the average dollar amount of the awards has been increasing steadily, the Labor Department says. The increase is attributed not only to inflation but also to a growing aggressiveness among claimants.

Though such claims can arise in companies of any size, small businesses are the most commonly targeted for wage-and-hour investigations. Small firms are vulnerable to wage disputes for several reasons. Most have neither personnel departments nor written personnel policies. Hiring and firing are usually just added responsibilities for a manager or assistant.

In addition, there is often a close, family-like relationship between employee and employer—one that is not conducive



ILLUSTRATION SHARON COHEN

A manager in job title only—not in duties—is not exempt.

to formal work rules. Work flow in small businesses can be uneven and difficult to schedule. People at all levels are accustomed to staying at work until the job is done.

What small firms' managers sometimes overlook, however, is that the same state and federal work rules that apply to major corporations apply also to small businesses and to nonprofit organizations.

A principal reason that companies lose wage-and-hour claims is that many managers and business owners misunderstand federal work rules. Most of the confusion stems from five terms in the law: salaried; exempt; nonexempt; suffer and permit; and burden of proof. Any manager—even in a one-employee com-

Pay attention to federal wage and hour laws, or you could pay a price.

pany—who wants to be able to defend against back-pay claims must understand how these terms are interpreted by regulators and the courts.

Salaried, exempt, and nonexempt are the terms that give rise to most of the back-pay and overtime awards obtained under the Fair Labor Standards Act.

The regulations say there are two principal classifications of employees—exempt and nonexempt. Exempt employees are excluded from minimum-wage and overtime rules because of the nature of their duties. Nonexempt employees are covered by all provisions of the act, again because of the nature of their duties.

It's a common misconception that employees who are paid by the hour are automatically nonexempt and that salaried employees are exempt. In fact, however, an employee's status depends on job duties, not payroll titles or method of payment. Consequently, many salaried employees are nonexempt and are therefore entitled to minimum-wage and overtime payments.

Four job categories are considered exempt from minimum-wage and overtime requirements: executive, administrative, professional, and outside sales. Most claims against small businesses involve executive and administrative positions.

To qualify for the executive exemption, an employee must meet five criteria:

- Manage an enterprise, department, or subdivision as a primary duty;
- Direct the work of at least two full-time employees;
- Have authority to hire and fire or to make recommendations on hiring and firing;
- Devote no more than 20 percent of work time (no more than 40 percent for retail and service businesses) to nonmanagerial duties;
- Be paid a salary of at least \$155 a week exclusive of room and board. A manager or executive who makes at least \$250 a week exclusive of room and board may spend up to 50 percent of work time on nonmanagerial duties, although such judgments are made case by case.

The best defense against wage claims

Kent Banning, a Scottsdale, Ariz., freelance writer and former university administrator, specializes in federal laws on management issues.

is to assign responsibilities clearly in job descriptions and other forms of communication. Keep in mind that employees must have the responsibilities in practice, not just on paper, in order to meet federal requirements.

Also, an employee must meet each of the above criteria to qualify for the executive exemption.

The following case study shows how tricky the wage rules can be:

A catering company ran 60 food-service operations under contract with a major East Coast university. Each unit was managed by a cook-manager who worked 44 to 48 hours a week, had full hiring and firing responsibilities, and was exempt under federal guidelines for executive employees. One cook-manager was suspected by her superiors of showing favoritism in her hiring practices, and the supervisor took over all responsibilities for hiring and firing in that unit. The cook was fired 10 months later and immediately filed a claim for back overtime. Since she was no longer responsible for hiring and firing, she argued, she was no longer an exempt employee. The back pay was awarded.

The exemption for administrative employees is as common a source of claims as the executive category. Typically, a salaried employee works as an assistant to an owner or manager and also does bookkeeping, clerical work, data entry, and "puts out brush fires." Because of the employee's value to the company, he or she is considered exempt, but that's often an incorrect assumption.

To be exempt, an administrative employee must meet these five criteria:

- Either be responsible for office work directly related to management or general operations or be responsible for work directly related to academic instruction or training at a school;
- Regularly exercise discretion and individual judgment, as opposed to merely following procedures, and have authority to make important decisions;
- Regularly assist an owner or executive, or perform work that requires special training or experience under only general supervision, or work on special assignment under general supervision;
- Spend at least 80 percent of work time on administrative duties (60 percent for retail or service businesses);
- Make at least \$155 a week exclusive of room and board.

Labor Department investigators often apply the requirements for administrative personnel very rigidly. In small businesses, investigators typically exempt only department heads, purchasing agents, credit managers, accountants, traffic managers, and data-processing managers. Assistants to these managers—though often consid-

ered exempt in big companies—generally are not exempt in small companies, sometimes because their actual duties fall short of the requirements.

Wage-and-hour investigations are made during spot checks or in response to complaints. Often a complaint is brought by a disgruntled former employee, but a single complaint may result in an employer giving back pay to other employees, both current and past, who never filed complaints.

Suffer and permit and burden of proof are additional terms that employers must understand.

Suffer and permit means that even if an employer does not specifically direct an employee to work overtime, the employee still may be entitled to overtime pay.

Often in small businesses, employees don't punch a clock, and they voluntarily work past quitting time to finish a task. Although the work is voluntary, it's still overtime under federal rules. If the overtime work benefits the employer, then the employee must be paid at the time-and-a-half rate.

Many small companies require that overtime be paid by compensatory time off. Wage-and-hour regulations require that "comp" time be taken in the same

week it was earned. It's a common misconception that comp time can be given any time during a pay period.

Burden of proof, another key phrase that employers should understand, means that the burden is on the employer to disprove an employee's claim. Employees do not have to present evidence to support a claim. This is why it's important for an employer to keep records and to be able to show that the company has explained its personnel policies to employees.

Employers have more than federal work rules to worry about. Many states have their own wage-and-hour laws, which may be much stricter than the federal laws. It is crucial for an employer to contact the state labor department in each state where the firm operates to find out what regulations apply.

Ignorance about wage-and-hour rules can be a costly mistake for small companies. The key to avoiding trouble is to plan a comprehensive personnel policy based on current regulations and stick to it.

The best course for even the smallest firms is to be aware of the strict, specific federal and state laws and regulations on labor standards.

16

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CONTRACTS

Payment For Performance

By Howard L. Shenson

If you are a consultant or other professional dealing with clients on an individual basis, fee setting and contract negotiating are as intrinsic to your sales profile as a well-wrought proposal.

Consciously or unconsciously, your clients' expectations go beyond the need for specialized knowledge or skills. Those clients are also looking for the satisfaction that comes with knowing that they're in the hands of a confident, seasoned professional.

While your track record and proven expertise may gain the attention of potential clients, sloppy contracts with unclear terms that lead to overcharging or undercharging can drive them away, often to less qualified competitors.

That aspect of your business operations is particularly important because the use of performance contracts is increasing.

Under a performance contract, professionals are compensated for the quality and/or quantity of services provided, rather than paid an agreed-upon fee.

If you are considering the possibility of working on a contingency or performance arrangement with clients, you should answer these questions before making a commitment to do so:

1. In working with this client, will I be able to identify hard, tangible, measurable criteria that will clearly and unmistakably indicate that the performance has been completed and that the performance or contingency fee is due and payable?

2. Will the client provide the operational and managerial control over the resources that will enable me to meet the tangible, manageable, and observable criteria required to produce the outcomes and results promised to quali-

Howard L. Shenson is a consultant in Woodland Hills, Calif., and editor and publisher of *The Professional Consultant and Information Marketing Report*.

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fy for the performance?

On the other hand, will the client be in a position to alter, change, modify, or otherwise have such control as to render my contributions ineffective, with the result that I will be unable to achieve the result that will produce the contingency or performance fee?

3. Am I willing to receive my entire

Contracts with unclear terms that lead to overcharging or undercharging can drive potential clients away, often to less qualified competitors.

compensation through the means of a contingency or performance fee, or shall I insist on some base fee (daily, hourly, fixed dollar amount) together with an incentive or performance fee to be based on measurable or observable results?

If I am working on a performance basis only, what provisions can be made to provide me with advances to cover costs and living expenses while awaiting the determination of results/achievement of performance?

If I have made arrangements for advances against future performance, am I willing to provide the means for repayment of such advances in the event that the project performance is not achieved?

4. Since I am entering into a risk arrangement with my client, have I been adequately compensated under the performance or contingency-fee arrangement for my time and technology as well as for the additional risk I will be undertaking compared to a nonrisk fee for the consulting assignment?

There are basically two situations that give rise to your proposing a performance or contingency arrangement

Before you decide to work on a contingency or performance basis with clients, consider these questions.

with the client. The first and most obvious is that you see yourself providing a service that would result in a substantial economic benefit for the client—perhaps the creation of a substantial positive cash flow or profit, or reduction of a client's expenses.

The second situation results when you see the performance-based proposal as a way of overcoming the sales resistance the client projects. That is, you do not foresee a substantial economic gain, but you believe that offering a performance contract is a possible way to overcome the concern that the client obviously has about your ability to accomplish the task set forth.

In this situation, the proposal to work on a performance basis often serves to "win the client over."

Even though the client elects not to work on a performance basis, your willingness to work this way may reduce the anxiety the client is experiencing about your ability or know-how.

A performance-based contract may specify that all fees will be based on performance, or it may allow for expenses and indicate a bonus if certain objectives are accomplished. The clauses that define payment in either case must be carefully worded.

If you are using standard agreements, you will have to modify the terms and conditions of payment to reflect inclusion of the performance clauses.

You now have all the necessary tools to construct a solid consultant/client contract. But you should be aware of a few caveats.

First, if for any reason you feel or know that the project is not doable, or that the client is involved in something unethical, or that you may not be able to collect your fee, back away from the deal altogether. However, if you feel that you must take this project on because of the income potential to yourself, eliminate airtight contractual clauses that prevent you from escaping without breach farther down the line.

Second, remember to have your attorney check all your work. An incorrect or omitted word or phrase can make all the legal difference in the world.

Finally, remember this above all: Stay out of court! If you have to litigate, you have already lost.

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INTERNATIONAL TRADE

Rediscover Latin America

By Rosemary Werrett

Ronald Metz, export manager of Mixing Equipment Co., is excited about his firm's future in its newest market, Latin America. "The [sales] growth curve is fantastic," he exclaims.

Mixing Equipment's short history in the region supports Metz's enthusiasm. The firm began selling the sophisticated industrial machinery it manufactures at

its Rochester, N.Y., headquarters to buyers in Venezuela and Colombia in 1986. "And every year since," says Metz, "business in the region has grown dramatically." In 1989, the firm set up a sales representative in Argentina; last year, it established one in Ecuador. The company is doing business in Brazil and Mexico under licensing agreements. This year, says Metz, "we will probably

Trade-barrier reductions in Central and South America have widened exporting opportunities.

do something in Bolivia."

A similar success story is being told at Primex, a New York-based trading company established 20 years ago to import goods made in South America. Recently, Primex started exporting to the region as well. Based on business activity to date, Stewart Paul, president of Primex, estimates the company's \$100 million or so annual Latin American sales will increase about 10 percent.

Business people on the U.S. side of the Rio Grande generally regard Latin America as a region beset by trade protectionism and economic instability. That perception may have been valid in the mid-1980s, but entrepreneurs such as Metz and Paul are discovering that it is inaccurate now.

Without fanfare, many of Latin America's most daunting trade barriers have tumbled during the past five years as its debt-burdened governments realized that their protectionist policies were stifling internal growth, keeping their industries uncompetitive, and spurring domestic inflation.

Slowly, sometimes with two steps forward and one step backward, these governments have reorganized their economies along free-market lines. Says Paul: "We had always hoped to export to South America, but because of high tariffs and strict regulations, we did not do it. But now, the doors have opened."

The efforts of Paul and other entrepreneurs to move U.S. products through these newly opened trade doors have importance beyond increasing the profitability of their respective businesses. These efforts also represent major steps toward achieving the national goal set forth by President Bush in his State of the Union address: establishing a free-trade zone encompassing both North and South America, which could substantially increase living standards throughout the hemisphere.

The growth of imports into the liberalized markets of Latin America has been impressive, indeed. Latin America's imports withered to \$59 billion in 1986, the high-water mark of the region's debt crisis. Last year, imports totaled about \$100 billion, with U.S. com-



PHOTO: GREGG HOFFMAN

Latin American sales have grown dramatically for Mixing Equipment Co., says export manager Ronald Metz.

Rosemary Werrett is a free-lance writer and newsletter publisher specializing in Latin American affairs.

The Latin American Market At A Glance, 1989



	Gross Domestic Product Per Person (in \$U.S.)	Growth Rate Of Gross Domestic Product	Total Imports (in \$U.S. Billions)	Imports From U.S. (in \$U.S. Billions)
Argentina	\$2,722	1.0%	\$4.2	\$1.0
Bolivia	721	2.5	0.6	0.1
Brazil	2,471	3.6	18.3	4.8
Chile	2,687	10.0	6.6	1.4
Colombia	1,764	3.2	3.8	1.9
Ecuador	1,528	0.5	1.7	0.6
Mexico	2,608	2.9	23.5	22.0*
Peru	1,241	-17.0	3.0	0.7
Venezuela	4,135	-8.1	6.8	3.0

*Does not include marijuana trade.

Sources: International Development Bank; U.S. Commerce Department; Lagniappe Letter

panies accounting for nearly 60 percent of them.

U.S. government officials such as Trade Representative Carla Hills point out how these figures—and other Latin American market indicators—stand tall in comparison with those of other markets in the developing world, including the much-touted markets of Eastern Europe.

For example, current U.S. exports to the former Soviet satellite nations are below \$1 billion, a figure equal to less than 2 percent of the total exports to Latin America. U.S. investment in Eastern Europe is a scant \$100 million, whereas in Latin America it tallies almost \$50 billion. Eastern Europe has 135 million consumers, compared with Latin America's 430 million. Latin American consumers, whose income levels range from exceedingly poor to ex-

ceedingly rich, support a diverse domestic market. That market absorbs everything from Mixing Equipment's precision machinery to Primex's dinnerware and plastic toys.

Brazil's economy is the largest in terms of gross domestic product and population. Mexico's also is large, and the country has the undeniable advantage of being next door to the United States. Venezuela's market is richest in per-capita income. Chile's is the fastest-growing. In terms of trade liberalization, Chile, Mexico, and Bolivia are the leaders. (See the box on Page 56.)

While this smorgasbord of markets should provide opportunities to almost any U.S. firm contemplating business in the region, the diversity can be daunting. And as is true of any foreign market, doing business in Latin America requires some changes in business

practices and attitudes. One thing Metz of Mixing Equipment learned right away is that Latin Americans, compared with U.S. business people, do business at a "different pace. There's a lot of hurry-up-and-wait there."

An executive of a major trading company that thus far has been unable to do business in Latin America bemoans the difficulty of obtaining timely market information from Central and South American government agencies.

Many executives say that keeping on top of copious paperwork, often in Spanish or Portuguese, is a time-consuming and costly requirement of doing business in Latin America. Keeping abreast of changing import rules is another. In some countries, elaborate customs bureaucracies are troublesome.

Central banks in Latin America, unlike those in Western Europe or Japan,

A U.S.-Mexico Free-Trade Pact?

The current major issue in Latin American trade is a proposal for negotiation of a U.S.-Mexico free-trade agreement.

Such a pact could be a key step toward eventual fulfillment of President Bush's objective of North and South America united in a single free-trade zone extending, as he puts it, "from Anchorage to Tierra del Fuego."

The proposal for a U.S.-Mexico agreement was made in a joint statement last June by President Bush and Mexico's President Carlos Salinas de Gortari. Canada's Prime Minister Brian Mulroney has since expressed interest in having his country participate with the

goal of a free-trade zone encompassing North America.

Before any negotiations can be started, however, Congress must decide whether to extend President Bush's "fast-track" negotiating authority. That procedure commits Congress to voting on a proposed final agreement within a specified period and without amendments. Under trade law, either house of Congress can deny a presidential request for an extension of fast-track authority by passing a resolution of disapproval. If no such resolution is passed by June 1, the request is granted automatically.

Business has expressed support for the talks.

James K. Baker, chairman of the U.S. Chamber of Commerce, told a Senate Finance Committee hearing that a properly crafted agreement would benefit

both nations. "The removal of tariff and nontariff barriers to trade and investment under [a free-trade treaty] will increase business opportunities on both sides of the border," he said.

While endorsing negotiations, Baker stipulated that "we will only support a final agreement that is in the interest of the U.S. business community."

An acceptable agreement, Baker said, should be comprehensive, covering tariffs, nontariff barriers, agriculture, investment, services, intellectual property, and mechanisms to improve bilateral economic relations.

At the same time, he said, the negotiations should not become a catchall for such issues as environmental policy, labor conditions, immigration, and narcotics, which "are already being addressed through mechanisms more appropriate" than a trade treaty.

INTERNATIONAL TRADE

intervene frequently in foreign-exchange management, ordering surprise devaluations, sometimes revaluations, or suspending dollar payments altogether when balance-of-payments situations become rocky. Exchange-rate fluctuations can dramatically affect expected profitability in a trading relationship. Also, the region's bad reputation in the wake of its many defaults to foreign lenders has resulted in something of an export-financing bottleneck, especially for small U.S. firms, says Arturo Roldan, president of a New Orleans-based trading company. His firm, R.A. Roldan & Co., Inc., sells chemicals in several Latin America markets and has seen sales grow from about \$1 million three years ago to \$2.8 million today. But financing these sales is a headache, he says.

If all this sounds complex and discouraging, keep in mind the potential rewards for perseverance. And take heart in the fact that Latin Americans generally like U.S. goods.

Lamentably, there are no maps that clearly chart the road to success in trading in the Latin American marketplace. Nor are there any simple strategies. You are advised to kick off your efforts in the region with some careful market research. With rare exceptions, timely and reliable information is not forthcoming from Latin American embassies and consulates. Yet plenty of useful information is available from other sources.

Among those sources is the U.S. Department of Commerce in Washington. Its desk officers can answer questions on tariff rates and provide market infor-



PHOTO: ©DAVID MURRAY—STOCK SOUTH

Stewart Paul shows Primex's wares to Brazilian buyer Marcia Junqueira.

mation, including sales leads. Phone either (202) 377-2000 or (800) 343-4300.

Almost every Latin American country has an **American Chamber of Commerce** made up of U.S. business people operating locally. The chambers have reliable and current information and are helpful for making contacts. The address and telephone number of each is available from the U.S. Chamber of Commerce, (202) 463-5460, or from the Association of American Chambers of

Commerce, (202) 463-5485.

The **port authorities and world-trade centers** in various states occasionally conduct trade missions to Latin American countries. The address and telephone of the port authority or world-trade center nearest you is available from the World Trade Centers Association, (212) 466-7196. The World Trade Center of New Orleans, the U.S. Commerce Department, and several other organizations sponsor a yearly "Encuentro" (that's Spanish for meeting) in New Orleans to match via computer Latin American, Caribbean, and U.S. exporters and importers. For details concerning this year's "Encuentro," not yet scheduled, call Alex Rostran at (504) 529-1601.

Several U.S. publications cover economic and financial issues relevant to businesses operating throughout Latin America. Among them are the *Lagniappe Letter* and the *Lagniappe Quarterly Monitor*, published by Latin

American Information Services, Inc., (212) 586-6498, and *Business Latin America*, published by The Economist (212) 460-0600. *Caribbean Update*, (201) 762-1565, provides useful information on the Central American-Caribbean area. Business newsletters are published in most of the major Latin American countries, often in English.

A final point: Don't waste time exploring Latin America unless you are resolved to do business there for the long haul. "A lot of business [in Latin America] is done based on relationships," says Paul. "A company can't look to just one deal."

Tariffs In Selected Countries

Trade rules are gradually becoming more standard in Latin America as countries of the region sign on with the General Agreement on Tariffs and Trade (GATT) and move toward freer markets. Yet countries still differ markedly in their trade rules and average tariff ranges.

The following summary is generally indicative of each country's receptiveness to imports. Keep in mind, however, that the tariff on your product may differ substantially from the average.

Argentina. Frequent changes in trade policy are the order of the day as Argentina edges haltingly toward lower tariffs

and fewer nontariff barriers. Currently, the tariff rate on capital goods and industrial imports is 11 percent, while key imports, such as automobiles and tractors, are under special regimes.

Bolivia. The tariff is a uniform 10 percent except for capital goods, which have tariffs of 5 percent.

Brazil. The average tariff was pared to 25.3 percent in early 1991, down from a previous maximum of 38 percent. Further planned reductions would shrink the average tariff to 14.2 percent by 1994. The 1994 goal is to have no tariff on imported goods that have no domestic counterparts; tariffs would be above the average of 14.2 percent, however, on imports of goods that are produced also in Brazil and that are deemed in need of protection for strategic reasons.

Chile. The uniform tariff rate is 15 percent.

Colombia. The average tariff on consumer goods is about 14 percent, with rates generally below that for capital goods. Tariff brackets will be reduced to four (zero, 5 percent, 10 percent, and 15 percent) by the end of 1995.

Ecuador. Tariffs ranged from 5 percent to 60 percent in 1990, but reductions are scheduled for this year.

Mexico. Consumer goods face a levy of 15 to 20 percent; raw materials and component parts, 5 to 10 percent; and machinery, 10 to 15 percent. Tariffs on items of all kinds not also made in Mexico are up to 5 percent.

Peru. A recently approved regimen imposes tariffs on goods at three levels—15, 25, and 50 percent.

Venezuela. The maximum tariff will fall from 50 percent to 40 percent in June 1991, 30 percent in 1992, and 20 percent in 1993.

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Howard Rothman

The Search For Relief From Back Pain

Ken Allikian, a manager in the Colorado State Department of Personnel, vividly recalls the moment he hurt his back. He was in the resort town of Aspen, using a rotary tiller on a friend's garden, when he crashed into a large boulder. Pain—immediate and severe—put him in bed for the next two days. Finally, it abated enough that he could drive down from the mountains to finish convalescing at his Denver home.

That incident occurred in 1974, but Allikian, 44, still wrestles with its after-effects. He has been hospitalized three times, stretched with 25-pound weights, treated with massage and ultrasound, instructed to exercise, informed that another injury would require surgery, and, he says, forced to miss work "here and there" as therapy after therapy failed to end his problems. "There's always a throbbing pain in my lower back," he says. "It's there now if I think about it."

Allikian is hardly alone. According to widely accepted estimates, 31 million Americans suffer from back pain at any given time, and 80 percent of the population will experience it at some point during their lives. Such injuries are the second most common reason for visiting a health-care professional—after throat ailments—and result in some \$20 billion annually in medical costs. The direct impact on the workplace is even more devastating: Back problems are said to account for one-fourth of all lost workdays.

According to the *Journal of Occupational Medicine*, the activities leading most often to back injury are manual tasks, lifting, twisting, and bending—activities of just the sort that millions of Americans perform daily on the job.

Dr. Alan H. Pressman, a New York chiropractor who has been treating back pain for 30 years, offers a view on why those in or approaching middle age suffer back injuries: "Generally, it is years of wear and tear that just caught up to



PHOTO: GARY STEIN—FOLIO, INC.

Back pain is a major reason for visiting a health-care professional.

them. The real reason that most people have back problems is that the human body adapts to spinal distortion—until it grows older. You can get away with chronically poor posture in your 20s, 30s, and even 40s. But then, even leaning over to brush your teeth could cause something to go."

Fortunately, back problems seldom are fatal. Unfortunately, diagnosis and recovery rarely are simple. Physical, neurological, and orthopedic examinations often are followed by X-rays, CAT scans, or magnetic resonance imaging (MRI). These procedures can lead to drugs (painkillers, anti-inflammatories, muscle relaxants, sedatives), physical treatments (braces, corsets, traction, surgery), or alternative therapies (acupuncture, pain clinics, hypnotism, electronic stimulation). Usually, treatment of every kind includes a long-term exercise and maintenance program to help rebuild the back and prevent injury.

Often, treatment that works for one patient will prove ineffective for another; and not every therapy is generally accepted as valid. One of the most controversial treatments today is "transcutaneous electrical nerve stimulation," or TENS, which is administered by portable machines that deliver electronic impulses to the inflamed area. Despite their use by tens of thousands of satisfied patients, and despite their acceptance by Medicare and major insurance companies, these machines were the

subject of a recent negative report, based on a study of 145 patients, in the *New England Journal of Medicine*. "We couldn't observe any [beneficial] effect," says the study's author, Dr. Richard Deyo, an associate professor at the University of Washington.

Those who make TENS devices, however, say they are supposed to block the transmission of pain—not effect a cure. "TENS is like eyeglasses," explains Fred Burmont, vice president for finance and administration of Staodyn, a Longmont, Colo., firm that is

one of four U.S. manufacturers. "Eyeglasses don't change your eyes," Burmont says. "They just help you see. Wearing a TENS device allows you to block the pain so you can do the exercise which will help heal."

Many who champion alternative therapies cite their own experiences. Take Marta Diaz, 40, a Scottsdale, Ariz., clothing designer who injured her back in 1985 while lifting a box. With a friend's help, she went to the office of Dr. Herbert Goodman, a Scottsdale physician who regularly uses hypnosis for pain control. The usually 10-minute trip took an hour and a half because of her back spasms, she says. Goodman hypnotized her and taught her how to direct her attention away from the pain. "When he was done," she says, "I walked out on my own."

Goodman also gave Diaz a relaxation plan for mitigating future pain, an exercise routine for rehabilitating her body, and a proposal for workplace changes to prevent future injury. "I didn't miss any work," she says, "and three weeks later I was completely healed. And I have not had a recurrence since then."

Proper diagnosis and treatment are critical to any back patient's well-being, but success seems to vary greatly according to patient and practitioner. The long-term path to a healthy back, on the other hand, appears much more clear-cut. "The real key to prevention is building a strong lower back and abdominal muscles," says Pressman, the New York chiropractor. "That, and learning not to do what irritated your back in the first place."

Howard Rothman is a Denver-based writer who specializes in health and business topics.

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

RETAILING

"How Much Is That Doggie . . . ?"

I am interested in opening a pet store. Where do I start?

R.W., Pasadena, Calif.

For information on operating a pet store in your area, contact the California Association of Pet Professionals. Its members include owners of retail pet stores and manufacturers, distributors, wholesalers, and suppliers of goods and services to the pet industry in Southern California. Write or call the association at P.O. Box 1337, South Pasadena, Calif. 91031-1337; (818) 799-7182.



ILLUSTRATION: GARY ALLEN

SERVICES

Table Preparations

Please tell me where to get information on starting a catering business.

G.R., New Hyde Park, N.Y.

(Similar question from D.P., Girdwood, Alaska.)

There are about 30,000 professional caterers in the country, according to the International Caterers Association, which represents catering professionals—from industry newcomers to those with advanced experience. Rick Smith, a consultant with the association and owner of a catering business, can talk with you about your enterprise.

In addition, a comprehensive list of publications on all aspects of starting a catering business is available from the organization for \$15.

To order the book list or to talk with Smith, call (800) 541-8171. The International Caterers Association is at 220

The Creative Touch

I want to open a craft store. Please tell me where I can get more information on this.

J.E., Goodlettsville, Tenn.

(Similar questions from B.H.R., Macon, Ga.; M.W., South Miami, Fla.; and L.A.B., Newark, Del.)

The Hobby Industries of America estimates that retail crafts and hobbies represent a \$4 billion to \$5 billion industry. The organization—its 2,400 members are companies in the craft and hobby business, including independent craft shops—offers information on the crafts industry and some tips for those who want to open their own stores.

Contact Susan Brandt, director of communications, at the Hobby Industries of America, 319 E. 54th St., P.O. Box 348, Elmwood Park, N.J. 07407; (201) 794-1133.

The organization also publishes a *National Consumer Survey*, which gives an analysis of consumer spending on crafts and hobbies. The analysis is free to the association's members and \$250 to non-members.

Membership in the Hobby Industries of America is open to operators of retail crafts stores and costs \$75 a year.

South State St., Suite 1416, Chicago, Ill. 60604.

Cloth Bottoms

I want to start a diaper service—pickup, cleaning, and delivery. Are there any health regulations I should be aware of? Where do I start?

R.H., Schofield, Wis.

(Similar question from R.A.N., Valparaiso, Ind.)

Louise MacFarland of the National Association of Diaper Services says home-delivery diaper services are becoming increasingly popular because of growing preferences for natural fibers.

The association offers information on start-up and suppliers as well as technical know-how. Write or call MacFarland at the National Association of Diaper Services, 2017 Walnut St., Philadelphia, Pa. 19103; (215) 569-3650.

PATENTS AND TRADEMARKS

Keeping Secrets

Is my product idea protected from theft if I discuss it with a manufacturer?

S.W., Salt Lake City

Until an idea becomes concrete, useful, original, and potentially profitable, it cannot be trademarked, copyrighted, or patented, and it can be lost by disclosure to a third party. The American Intellectual Property Law Association (2001 Jefferson Davis Highway, Suite 203, Arlington, Va. 22202; 703-415-0780) suggests you use a disclosure document; it credits you with the idea and contains the other person's signed agreement to



never use or divulge the idea. If you send a description of your idea to the U.S. Patent and Trademark Office's Disclosure Document program (703-557-5168), it will be credited, dated, and kept on file for two years. The fee is \$6.

FINANCING

Home On The Line

How can we use the equity in our home as a way to finance a small business?

E.G., Detroit

You can do so by refinancing your home through a home-equity loan or line of credit, which bankers tell us is a fairly routine procedure.

Generally, you will hear within a few days whether you qualify for refinancing, but processing takes three to six weeks, depending on the time required to conduct a title search, set up the closing, and handle other administrative details.

START-UPS

From The Beginning

I need information on starting and operating my own business.
S.W., Camden, Maine

Many publications and books deal with starting a business. A good place to begin is the Small Business Administration's list of publications, many of which focus on starting a business. For a copy of the list, call (800) 368-5855.

SBA publications cover all the basics—how to structure an office, where to obtain loans, how to find an accountant and a lawyer, setting up a corporation, and other matters.

For information on SBA seminars on starting a business, call your regional SBA office; the number is available through the 800 number above.

Attics For Rent

I am interested in starting a self-storage facility. Where do I begin?
M.O., San Jose, Calif.

The toughest problem in establishing a self-storage facility in an urban location is competition for space, according to Frank H. Mason, executive director of the National Mini Storage Institute. Zoning regulations also can be troublesome, he says.

The institute offers a free brochure on opening a small self-storage facility. The organization also sponsors free educational seminars several times a year in various parts of the country.

For more information, write or call



the National Mini Storage Institute, 1331 P Street, N.W., Suite 105, Washington, D.C. 20005; (202) 943-9162.

Home Work

I am in the process of opening my own home-based business and would like any information you might have to give me on my venture.
L.S., Alexandria, Va.

The trend toward working at home is

gathering speed, and by 1992 nearly 31 million Americans will trade their daily commutes for an office in the home, according to LINK Resources Corp., a New York firm that researches work-at-home trends. (Also, see "Look Who's Working At Home," the cover story in the October 1989 issue of *Nation's Business*.)

Working from home often is not as easy as it appears, say experts on the subject. The National Association for the Self-Employed encourages you to conduct a thorough self-assessment before making a final decision to become a home-based worker. Through publications and workshops, the association can



help you determine if you are suited to the work-at-home environment.

The organization provides free booklets on self-employment and also offers its members various professional services.

For more information, write or call the National Association for the Self-Employed, P.O. Box 612067, DFW Airport, Texas 75261; (800) 232-6273.

SALES

Manufacturing Rep

Where can I go for information on becoming a manufacturer's representative?

R.B., Haledon, N.J.

The Manufacturers' Agents National Association offers a free membership packet of useful information, including a copy of the association's monthly magazine, *Agency Sales*. The magazine's classified section lists manufacturers who are looking for representatives.

Write or call the association at P.O. Box 3467, Laguna Hills, Calif. 92654; (714) 859-4040.

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

THIS MONTH'S MOST-ASKED QUESTION

How To Begin Selling By Mail

Shopping by catalog at home or at the office is on the rise, and many Direct Line readers want to tap into this and other kinds of direct marketing. Whether you want to open a full-line catalog business, as does D.M. in Portland, Ore., or, like G.P. of Warrenton, Mo., L.S. in Alexandria, Va., and S.Y. of Bethlehem, Pa., you are interested in a less comprehensive direct-mail approach, begin with the Direct Marketing Association (DMA).

"We stress the necessity of doing your homework up front," says Lisa Caugherty, director of the association's shop-at-home information department. Although DMA consultants say a firm may spend \$3 million in the first three years to achieve a national presence in direct mail and catalog sales, there's still room for smaller firms. "There are ways to be a player in direct mail without putting all your life savings into it," says Caugherty, "but it takes a lot of research."

First, find out if a product like yours is already on the market, Caugherty says. Even if the answer is yes, research may suggest demand for your item, which you might then sell through an established catalog or direct-mail company.

If you decide to start a firm, collect start-up information. DMA has 22 conferences and seminars nationwide throughout the year on starting and growing a catalog or other direct-mail business.

Topics range from postal permits, capital, and mailing lists to government regulations. Sessions last up to four days and cost \$200 to \$1,000.

For a list of direct-mail marketing clubs in your area or for other information, contact Caugherty at the DMA, 6 East 43rd St., New York, N.Y. 10017; (212) 768-7277.

Two helpful reference books on direct marketing are:

Building a Mail Order Business: A Complete Manual For Success, by William A. Cohen; hardcover, \$34.95. (Refer to ISBN No. 047-1-81062-2.)

Money in Your Mailbox: How to Start and Operate a Mail-Order Business, by Perry L. Wilbur; paperback, \$10.95. (Refer to ISBN No. 047-1-82586-7.)

The books can be ordered from the publisher, John Wiley and Sons, Inc., 605 Third Ave., New York, N.Y. 10158; (212) 850-6418.



For Your Tax File

What you need to know to keep taxes from overtaxing you.

By Albert B. Ellentuck

THE DISABILITIES LAW

Credit For Compliance

Small businesses required to make structural changes to comply with a new federal law on the disabled can recover part of the cost through tax credits.

Two laws passed last year are involved. The Americans with Disabilities Act requires most businesses to be able to accommodate the disabled. The 1990 tax act provides a credit of up to \$5,000 for small businesses that make structural changes to comply.

Small businesses for these purposes are firms with no more than 30 full-time employees or annual gross receipts of no more than \$1 million.

All covered expenses paid or incurred after Nov. 5, 1990—the date that the tax provisions took effect—are counted. These include the removal of architectural or transportation barriers or obstacles, hiring qualified interpreters for the hearing-impaired or qualified read-



PHOTO: GREG THOMPSON—THE STOCK MARKET

Installing equipment to help the disabled can earn a tax credit for a firm.

ers for those with impaired vision, and utilizing other services and equipment to assist handicapped individuals.

The credit is equal to 50 percent of such costs in excess of \$250, with a limit of \$10,250; this allows for a maximum

credit of \$5,000. In addition, there always has been a tax deduction for removing barriers to the handicapped. This deduction still applies, though the maximum deduction now has been reduced to \$15,000 from \$35,000.

The credit and the deduction can be combined so long as there is no doubling up. For example, a company can deduct costs in excess of \$10,250, up to the \$15,000 maximum.

The law has two main divisions. One deals with access by the public to business facilities that include transportation and telecommunications. The other deals with employment and prohibits discrimination against the disabled in hiring, firing, training, promotion, and benefits. Detailed rules to implement the various provisions of the act are now being promulgated. A report on these regulations will appear in an upcoming issue of *Nation's Business*.

AUTOMOBILE COSTS

Every Little Bit Helps

Business people who use company cars can take advantage of an optional mileage allowance. Under this approach, they will not have to prove actual expenditures for gas, oil, maintenance and repairs, tires, insurance, registration fees, and depreciation. Instead, they simply have to prove the number of miles driven for business during the

year and then multiply those miles by the standard mileage allowance. For 1990 that allowance was 26 cents per mile, but the Internal Revenue Service has increased it, effective this past Jan. 1, to 27.5 cents per mile. (Keep records of tolls and parking fees, however, because they can be deducted in addition to the allowance.)

Several years ago it looked like the IRS would require all business people

and employees to keep a daily log of automobile mileage, but a taxpayer uproar caused the IRS to back down on this requirement. Of course, you still must keep careful records of mileage. A daily log is best, but a weekly or even a monthly record will do if you have a good memory. You might consider using a tape recorder—kept in your car—to note the date, destination, and the mileage at the start and finish of each trip.

FILING DEADLINES

The Extension Trap

As we all are acutely aware, the April 15 tax-filing deadline is almost upon us. Of course, you can always get an extension of time to file your return, but beware.



Tax specialist Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

Many taxpayers who receive extensions still can be hit with penalties. The reason is that the extension does not prolong the time to pay the tax; it simply extends the deadline for filing the return. You still must pay the amount of taxes you owe the Internal Revenue Service by April 15.

It works this way: To receive an IRS filing extension, you must submit an extension request together with payment of what you believe your taxes owed will be. And remember that if you underpay the federal government by too much, you may end up paying a penalty later.

The requirements for estimated tax

payments can prove to be an even worse trap. If you are self-employed and your earnings are not subject to withholding, you will be filing estimated tax payments.

It is important to note that the extension of time to file your return does not excuse you from filing your first estimated tax payment by April 15.

If you haven't yet pulled together your tax information, you should do so quickly. Your accountant needs this information to file a proper request for an extension of time to file your return and to calculate your estimated tax payment.

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

TRAVEL

Weather Reports For Travelers

You're going to another city, another climate zone, or another country, and you want to know what kind of weather you'll encounter. Should you pack lighter, or heavier, clothing? Will you need a raincoat and umbrella? Will any storms interfere with business or vacation plans involving outdoor locations?

You can let your fingers do the forecasting by punching in a 900 number and subsequent category codes on your telephone.

American Express has a 1-900-WEATHER service that provides extended forecasts, ski reports, boating conditions, road conditions, and other travel tips for some 600 cities here and abroad. It costs 75 cents a minute and appears on your monthly telephone bill.

For more information, including a list of all the cities covered, send a self-addressed, stamped envelope to 1-900-WEATHER, 100 Church St., 14th Floor, New York, N.Y. 10007.

American Automobile Association members can get a similar worldwide service, plus detailed road conditions (best routes, ice, fog, detours, etc.) by

dialing 1-900-884-AAA1 and inserting a club access code. The charge is 75 cents for the first minute and 50 cents for each subsequent minute.

"Nonmembers can get this service too," says AAA spokesperson Robert Krebs, "by calling your local club and asking for the access code number."

Other organizations, such as major metropolitan newspapers, clubs, and associations, also provide dial-a-forecast reports, often at no charge. *The Washington Post*, for example, offers readers a free Post-Haste service that includes push-button choices for reports on the weather in 23 metropolitan areas. ■



PHOTO: GERRY MESMER—FOCUS, INC.

Starting a trip to San Francisco? It's easy to check on the weather there.

INVESTING

Ladders And Coupons For The CD Investor

Time was, you plunked down \$5,000, or \$10,000, or whatever, at a bank or savings institution and got a fail-safe, government-insured certificate of deposit.

The interest was good, usually a little better than the shorter-term Treasury offerings, and you could pick a maturity date from a few months to a few years.

When interest rates started to fall, experienced CD investors didn't want to get locked into something that might be of less value when rates eventually started to go back up. But who knows how far rates might drop and when they

might turn back up again?

To avoid being locked into a lower-interest CD for months or years, some astute investors started to use a purchase system called "laddering."

Instead of investing a lump sum of, say, \$10,000 in one CD, you spread your money over several smaller CDs with maturity dates of six, nine, 12, and 18 months, putting in \$2,500 for each date.

"If interest rates go up in six months," says Chase Manhattan Bank spokeswoman Pat Farrell, "you can reinvest the money from the six-month CD and lock in a higher rate." On the other hand, she says, "if rates go down when the nine-month CD matures, you can purchase a shorter-term CD and wait for rates to move up."

By breaking down your CD investment into various maturity dates, you can take advantage of rate trends. And there's another advantage. It's called "couponing."

If you buy one \$10,000 CD, you have to wait until it matures to take your

money out. Otherwise, you're hit with an early-withdrawal penalty, which can significantly depress the interest rate you were supposed to get. If you buy four CDs at \$2,500 each or five at \$2,000 each, you get a form of contingency insurance. You may find yourself in a financial crunch with a lot of bills to pay. With "couponing," you can peel off one \$2,500 or \$2,000 CD from your portfolio to cover the contingency. If you had to take out the entire \$10,000 in one lump, you would suffer a much greater early-withdrawal penalty.

Some banks and savings institutions offer purchase plans designed to help savers guard against losing out if interest rates go up. For example, the typical offer for a "bump-up CD" goes like this: You buy a six-month CD at 7 percent, and if the rate goes up to 7.5 percent, the bank or savings institution will "bump up" your rate to match the current offering. The catch? The initial rate may be lower than rates you could have obtained at other institutions. ■



Peter Weaver is a Washington-based columnist on personal finance.

AUTOMOBILES

A Taxing Situation For "Gas Guzzlers"

Does the tax law consider the car you plan to buy a gas guzzler or a luxury model?

You should find out, because if it's rated as both, you'll get hit with a double tax whammy.

Congress has doubled the tax levied on automobiles that do not meet federal fuel-economy standards, and it has slapped a 10-percent surtax on cars that cost more than \$30,000.

Let's say you're buying a car that costs \$50,000. You will have to pay a 10-percent tax on \$20,000 (the amount over the \$30,000 limit), which comes to \$2,000.

Plus the guzzler tax. The amount you would have to pay on a so-called gas guzzler is determined by the combined highway/city miles-per-gallon rating that the Environmental Protection Agency has given the car.

Cars with a rating of at least 22.5 miles per gallon don't have to pay a guzzler tax. But a good many big cars, luxury cars, and performance-sports models fall well below the 22.5 mpg cut-off.

When the mpg rating drops below

22.5 but no lower than 21.5, you must pay a \$1,000 tax.

As the rating goes down, the cost goes up dramatically, to a maximum of \$7,700 for any car with a rating of less than 12.5 miles per gallon.



PHOTO: ©CAMERON DAVENPORT-PSLID, INC.

If you buy a new car priced over \$30,000, you'll pay a surtax.

Theft-Prevention Devices: Valuable Accessories

If you drive an expensive car or park in high-crime areas, consider an anti-theft alarm for your car. Although it may cost as much as \$1,000, it can reduce your auto-insurance premium.

"Insurance companies will give discounts up to 10 percent for theft alarms that are passive," says American Automobile Association spokeswoman Betsy Glick.

Passive alarms, she says, automatically arm themselves after you leave your car. They cost \$300 and up.

Then there are the new electronic homing devices. You hide one somewhere in your car, and it's activated when a thief drives the car away. The police can track the thief—if they have invested in special listening devices in squad cars to home in on the signals the transmitter in your car is sending out. This anti-theft system, which costs around \$600, is available only in certain parts of the country.

Various types of bars that keep steering wheels from turning are available for \$10 to \$30. They may not qualify for insurance discounts, Glick says, but they might deter thieves.

HOUSING

Shared Equity Deals For First-Time Home Buyers

Young adults these days have a hard time buying their first home. They may have enough income to meet mortgage payments but can't scrounge up the down payment.

"One way to help the kids get going," says real-estate agent Agnes Davis, "is to work up a shared-equity deal where the parents or grandparents lend the money for the down payment and get back interest plus a share of the property's appreciation in value."

Davis, who is president of the American Realty Group, in Arlington, Va., says a typical deal goes like this:

A home priced at, say, \$100,000 requires a 20-percent down payment, or \$20,000, with a first mortgage covering the remaining \$80,000. The family "investor" puts up 15 percent of the purchase price (\$15,000) toward the down payment as a second mortgage, and the young owner puts up 5 percent (\$5,000). The young owner moves into a starter home and gets significant tax deductions for interest paid on the first and second mortgages.

The parent, grandparent, or other family member gets interest of 10 to 12 percent on the second mortgage plus, typically, a share of the capital gain—25 percent, say, or some other agreed-upon figure—when the home is sold or refi-

nanced, which usually happens within five years.

"It's a good business deal for everyone," Davis says, "because the children get started as homeowners at a monthly cost they can afford, and the family investor can get a well-managed, profitable real-estate property."

Depending on where the young homeowners live, it may be a bit tricky to find a first-mortgage lender to go along with family investors' putting up money as a second trust. It will pay to shop around for the right lender. It may also pay to consult a lawyer who specializes in commercial real estate, where similar arrangements—called appreciating second trusts—are sometimes used.

SOCIAL SECURITY

Cards For Babies: Now It's The Law

First, it was 5-year-olds. Last year, it was 2-year-olds. Now it's babies who have their first birthday before the end of the year.

Social Security cards used to be for working people. They now cover everyone from cradle to grave.

The reason behind the drop in age is simple: The Internal Revenue Service wants to be sure that parents who claim children as dependents really do have extra mouths to feed. IRS spokesman Wilson Fadely says, "Around 7 million dependents disappeared from tax re-

turns when Social Security numbers were first required for children at age 5."

For this year's returns, parents can get a \$2,050 exemption for each child. Claims must be backed up with Social Security numbers for children who were 2 years old, or older, in 1990. You can be assessed \$50 for each failure to provide the required number.

For 1991 tax returns, a year from this April, the requirement for a Social Security number will include 1-year-olds.

Who knows? In the 1992 tax year, cards may be required for newborns. In fact, at an increasing number of hospitals, the birth-certificate application

form has a box to check if you want a Social Security number for your baby.

Philip Gambino, a Social Security Administration spokesman, says, "It's all done automatically through our Enumeration At Birth Service." And, of course, there is no charge.

Parents whose babies are not "carded" at the hospital can get SS-5 application forms from local Social Security offices.

Warning: Some mail-order businesses, often with names that sound like government agencies, offer unwitting parents assistance in getting Social Security cards. They charge \$10 to \$25 for an otherwise free service.

Franchising

Technology, acquisitions, and small-business targeting signal the growth of printing franchisors.

By Meg Whittemore

Quick Printing Turns High-Tech

Franchisors in the quick-printing and copying industry agree that the growth of their fast-changing segment of franchising will be fueled by advanced technology, acquisition of existing franchises in the printing field, and catering to small-business customers.

Quick-printing and copying franchises have enjoyed phenomenal growth during the past two decades.

Sales in 1969 were about \$8 million, according to the U.S. Department of Commerce. This year, sales will total an estimated \$1.9 billion, according to *Franchising in the Economy 1989-91*, a study published by the International Franchise Association Educational

Foundation and Horwath International.

Some experts forecast that franchised printing and copying companies will continue to make money but that there will be fewer players in the industry. Donald Lowe, president of Sir Speedy, Inc., a printing franchise based in Laguna Hills, Calif., says: "At one time, there were as many as 28 different printing and copying franchises in the U.S. But now the industry is shaking out the weaker companies, and soon there will be only about 10 major franchise printers in the ball game."

Lowe's expansion strategy includes acquiring smaller franchised print shops and converting them to Sir Speedy operations. "Aggressive expansion through conversions of other printing franchises fits into our growth strategy for the '90s," Lowe says.

Recently, Sir Speedy raised the number of its franchises to 875 through the

acquisition of 12 Print Shack franchises from American Franchise Group, Inc., based in Fort Lauderdale, Fla. Sales throughout the Sir Speedy system last year totaled \$330 million.

In addition, the Print Shack acquisition was in accord with Sir Speedy's preference for owner-operated franchises rather than units owned by absentee investors. In some segments of franchising, ownership is seen as a motivation for the franchise operator to provide more personalized and detail-oriented service to business clients.

An added benefit of acquiring print shops already in business, as Sir Speedy has done, is the ability to bypass the sometimes-shaky start-up phase inherent in bringing a new franchisee into the system. Converted franchisees "understand the business, and they also understand the benefits of belonging to a franchise organization," says Lowe, and



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FRANCHISING

folding them into the Sir Speedy system takes a lot less time than starting new operations.

Sir Speedy offers a wide range of printing services, including photocopying, electronic publishing, computer-enhanced graphic design, layout, typography, black-and-white and full-color printing, and binding.

Like other quick-printing and copying franchises, all of Sir Speedy's services target small businesses as primary customers. Indeed, quick printing's customers of the future increasingly will be small businesses, according to Vernon Buchanan, founder and president of American Speedy Printing Centers. American Speedy, headquartered in Bloomfield Hills, Mich., has more than 700 centers in 43 states, Canada, the United Kingdom, and Japan. System-wide sales for 1990 reached \$141 million.

Buchanan also believes that small businesses increasingly will need the more sophisticated services that usually have been offered only by commercial printers, and he says technological advances will enable the quick-printing industry to claim a greater share of that commercial printing business.

"As the [printing] industry adds newer technologies, such as four-color printing, desktop publishing, and color copying," Buchanan says, "today's quick



PHOTO: CHAL IIMARCO JR.-BLACK STAR

Sir Speedy franchisees Cam Huepenbecker and daughter Mary Harnish of Lancaster, Pa.

printers will become tomorrow's commercial printers."

The total start-up costs of a printing-and-copying franchise can vary. To open an American Speedy franchise, the price is \$166,500. It costs \$120,000 to start a Sir Speedy Printing Center. For an AlphaGraphics Printshops of the Future franchise, the costs come to \$277,000.

AlphaGraphics, based in Tucson, Ariz., is an international franchisor of high-tech quick-printing centers. It has more than 325 locations in 12 countries, including the Persian Gulf nation of Bahrain. AlphaGraphics specializes in bringing high technology to the franchised segment of the quick-printing and copying industry. "Our research

shows that consumers need a one-stop source for their print needs," says Rodger Ford, president of AlphaGraphics.

Armed with his research, Ford has moved his franchise into the world of high tech, offering businesses of all sizes and in all locations access to the services provided by AlphaGraphics. "The customer doesn't need to bring in a camera-ready original, just a camera-ready idea," says Ford. "We create the original."

One of Ford's more innovative services is AlphaLink, a computer network that uses a satellite to transmit camera-ready text and graphics to any other AlphaGraphics shop in the world in minutes.

AlphaGraphics also offers desktop-publishing services, utilizing Macintosh computers for laser typesetting. "With AlphaLink and desktop publishing, you can create a camera-ready document in the comfort and convenience of your office and transmit it to us for production," says Ford. "You don't even have to come to the shop. I guess you'd call that no-stop printing."

Clearly, computers, laser printing, satellite transmission, and other technological advances have broadened the scope and enhanced the capabilities of quick-printing operations.

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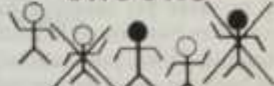
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Where I Stand

On The War And Recession

Your response to this survey will help shape U.S. economic policies following the Persian Gulf War. Make a difference by responding today.

Send the attached postage-paid response card. Or you can circle your answers, fill out the coupon below right, and fax this page to (202) 463-5636.

1. How did the Gulf War affect your business?

1. Hurt
2. Helped
3. No apparent effect
4. Unsure

2. Do you expect your firm's sales to rise now that the war is over?

1. Yes
2. No
3. Unsure

3. Do you expect your company's spending to rise as a result of the war's end?

1. Yes
2. No
3. Unsure

4. How have nonwar factors, such as the recession, affected your business over the past several months?

1. Greatly
2. Moderately
3. Slightly
4. Not at all

5. Do you expect the war's end alone to bring the U.S. out of recession?

1. Yes
2. No
3. Unsure

6. Do you believe government action, such as incentives for savings and investments, is needed to stimulate the economy?

1. Yes
2. No
3. Unsure

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ZIP

Congressional Alert

A report on key legislative issues with suggestions for contacting Congress about them.

Addresses: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.

Medicine For The Economy

The U.S. Chamber of Commerce has helped develop a legislative package that could significantly shorten and soften the recession and help produce a robust recovery. The package has been introduced in the Senate as S. 381 by Sen. Malcolm Wallop, R-Wyo., and in the House as H.R. 960 by Rep. Tom DeLay, R-Texas.

The legislation would reduce the Social Security payroll-tax rate of 6.2 percent for employers and employees by about one percentage point each. By reducing the tax on labor, such a move would help create jobs and spur both consumer spending and savings by leaving more income in employees' pockets.

The package would also reduce the maximum corporate and individual capital-gains tax rates from 34 and 28 percent, respectively, to 15 percent, and it would index capital gains to the inflation rate. Such a step would encourage capital investment, aiding business formation and job creation.

The measure also would establish a tax-code provision that would permit annual indexing of asset-depreciation schedules to compensate for inflation. This new depreciation method would be known as a neutral cost-recovery system.

Finally, the package would lower the tax on savings by implementing a new type of individual retirement account called the IRA Plus. An individual could make deposits into an IRA Plus account with after-tax funds and make withdrawals after age 59 1/2 without paying taxes on interest earned in the account.

Contact your representative and senators. Urge support for S. 381 and H.R. 960.



ILLUSTRATION: RICHARD GAGE

An Outdated Social Security Test

Congressional support is growing for legislation that would repeal provisions in current law that penalize recipients of Social Security benefits who continue to work. Such legislation would benefit employers and older employees.

Bills introduced in the Senate as S. 194 and the House as H.R. 967 would eliminate the Social Security earnings test. That test subjects employees aged 65 to 69 to a \$1 reduction in Social Security benefits for every \$3 earned above \$9,720 annually.

This penalty has a particularly adverse impact on the growing number of older persons who must work to make ends meet, often because of the increasing cost of medical care.

The earnings test was established in the 1930s when unemployment was high and there was a desire to move people out of the labor force.

But today, with the growth in the labor force slowing and the mismatch in job requirements and employee skills increasing, the earnings test no longer serves a useful purpose. Meanwhile, retaining experienced and competent older employees is a critical priority for labor-intensive employers.

While eliminating the earnings test would result in higher costs for the Social Security system, its repeal would also increase general and Social Security revenues. More senior citizens in the work force would mean more income on which Social Security and income taxes would be paid.

Contact your representative and senators. Urge support for legislation to repeal the Social Security earnings test.



Unemployment Compensation

A weak U.S. economy and rising unemployment rates are expected to put pressure on Congress to drastically expand unemployment-compensation (UC) benefits and increase payroll taxes on business.

Likely proposals would extend the duration of benefits beyond the current cap of 39 weeks of regular and extended benefits and loosen eligibility rules for extended benefits.

Some lawmakers also believe that additional federal UC tax revenues—which fund the administration of state UC programs—are necessary to keep the compensation system going.

The U.S. Chamber of Commerce believes that long-term benefit extensions run counter to the design, scope, and capability of the UC system.

Current federal UC tax revenues are sufficient to keep state programs operating at an adequate level. But the federal government has avoided allocating much of the revenue to the states because it can use those funds to offset—on paper—a portion of the federal budget deficit.

This has forced most states to supplement federal funds with state revenues or enact state payroll taxes to meet minimum UC program needs. Thus, employers in these states are actually paying twice to finance the UC system.

Contact your representative and senators. Urge them to oppose proposals to extend UC benefits and increase federal UC taxes. Tell them to support sufficient appropriations from federal trust funds to ensure a smoothly operating UC system.



Editorials

Why The Lessons Of A 43-Day War Will Endure Well Into The Next Century

The America that emerged from the Persian Gulf War was vastly changed from the one that entered it just 43 days earlier. The national mood prior to that first air attack on Jan. 16 was grim. A recession was deepening, and pessimism about the future was rampant.

As the Gulf crisis evolved, there was uncertainty about whether the nation had lost its willingness and ability to influence events abroad.

In addition, the American military had suffered for years from allegations of inept leadership, waste, and inefficiency. The all-volunteer forces had been ridiculed as an aggregation of semi-literate dropouts ill-suited to a high-tech battlefield.

But at the end of the war, the country witnessed an explosion of euphoria, patriotism, optimism, confidence, and pride not only in its fighting forces but also in itself. What happened to us as a people in those 43 days is the key to our future as a nation. The military victory showed that the United States is willing and able

to defend freedom wherever it is threatened; indeed, it is the only nation in the world today with the commitment and resources to do so.

The Gulf War showed that America's military leaders today are among the most brilliant that the services have ever produced and that rank-and-file personnel, including the reservists called to duty, have the intelligence and the dedication needed to wage war and protect peace.

At home, the American people demonstrated that love of country, pride, optimism, and confidence remain fundamental elements of our national character.

The victory of the American-led coalition in the Gulf War has reasserted the role of the United States as the most powerful voice of freedom in the world today. The unity forged at home has shown that the American

people have rediscovered the spirit needed to meet the many challenges facing us today. Those are the lessons of a 43-day war whose impact will be felt far into the new century.



PHOTO: MICHAEL O'NEILL—GAMMA LIAISON

Spreading Democracy

Efforts to extend freedom and the values that flow from it take many forms. In the Middle East, resolute military action was unavoidable.

In other areas of the world, the force of ideas is a powerful weapon. Peoples who thought they could trade liberty for security found they had neither and now want to learn how to achieve both. They are turning to institutions of the free world for guidance.

One organization providing this guidance most effectively is the U.S. Chamber of Commerce, which is grounded in the American enterprise system and has a world outreach through its international programs.

The U.S. Chamber's "Program for Worldwide Peace and Prosperity" is assisting the nations of Eastern Europe, among others, to move from the

statist systems that had impoverished them for generations to market economies.

This program deserves special mention because it has been awarded the prestigious George Washington Honor Medal (see photo) by the Freedoms Foundation at Valley Forge.

The citation reads:

"The U.S. Chamber, through its activities, is spreading the values of democracy, freedom of choice, private enterprise, property rights and the other benefits that our way of life offers. In a time when so many people around the world are searching for ways to just get a little bit of what we enjoy every day, the U.S. Chamber is helping them to learn."

It is through such initiatives that the goals of the Chamber's program—worldwide peace and prosperity—will one day be realized. And may it be sooner rather than later.



PHOTO: AMERICA'S BALANCE

Free-Spirited Enterprise

By Janet L. Willen



ILLUSTRATION: JIM OWENS

WAY TO GO

Now, for business travelers who can read a flow chart but not a road map, there's help from **Dial-A-Map**.

This Baltimore company offers its subscribers directions by phone for 48,000 cities in the U.S. and Canada. The service costs from \$24 per year, for 50 destinations per month in a limited area, to \$149 per year, for unlimited directions nationwide, with other plans available.

What's more, retail businesses can advertise with Dial-A-Map. Then, when subscribers ask where they can find local restaurants, hotels, gas stations, and the like, Dial-A-Map will tell them what the advertisers have to offer.

The company says directions in European cities should be available soon.

THE WELCOME MAT

New York's **Drake Hotel** is spreading the red carpet for kids.



Its new **Child's New York** program lets up to two children stay free in the same room with a parent. Upon arrival, children receive cookies and milk with a welcome note from the staff, a multi-lingual 10-page coloring book called *The Visit*, and a workbook called *My Impressions of New York*, which asks them to write about their experiences in the city.

The Drake's manager, David Gibbons, says the program helps children pass the "stress test" of traveling with their parents on business.



EASY LANDING

Jet travel needn't cause jet lag, says **The Marketing Clinic** of Keene, N.H., distributor of the Bioclok.

The Bioclok looks like a flip-top cosmetic powder compact but works like a calculator. Punch in your departure and arrival times and whether you're heading east or west. The Bioclok will then display the best times for you to be in the daylight or stay in the dark at your

destination, so you can synchronize your body to the new local time zone.

TOGETHER AGAIN

Lost luggage and their owners won't stay apart for long if Carmine Sarno has his way. Sarno's service, **The Registrar**, of Topsfield, Mass., reunites the two.

Registrar members place ID codes, their names, and The Registrar's toll-free number on luggage, golf clubs, cameras, and other valuables. When a member calls to say an item was lost in travel, The Registrar uses



computer technology, telecommunications, and express delivery services to retrieve it for the owner.

Depending on the service chosen, membership may start at \$14.95, with an annual fee of \$9.95. The owners usually pay for shipping and handling of returned items.

ROAD WORK

Worker mobility takes on new meaning with **Workamper News**.

This bimonthly newsletter, published in Heber Springs, Ark., advertises job opportunities primarily for semiretired RVers (recreational-vehicle travelers) who want to combine working with camping. Most of the employment listings are for part-time, seasonal jobs in parks, campgrounds, and resorts.

Not all the 6,000 readers are retirement age, says pub-



lisher Greg Robus. A surprising number are younger people, he says, "trading their conventional jobs for the freedom and adventure of the open road."

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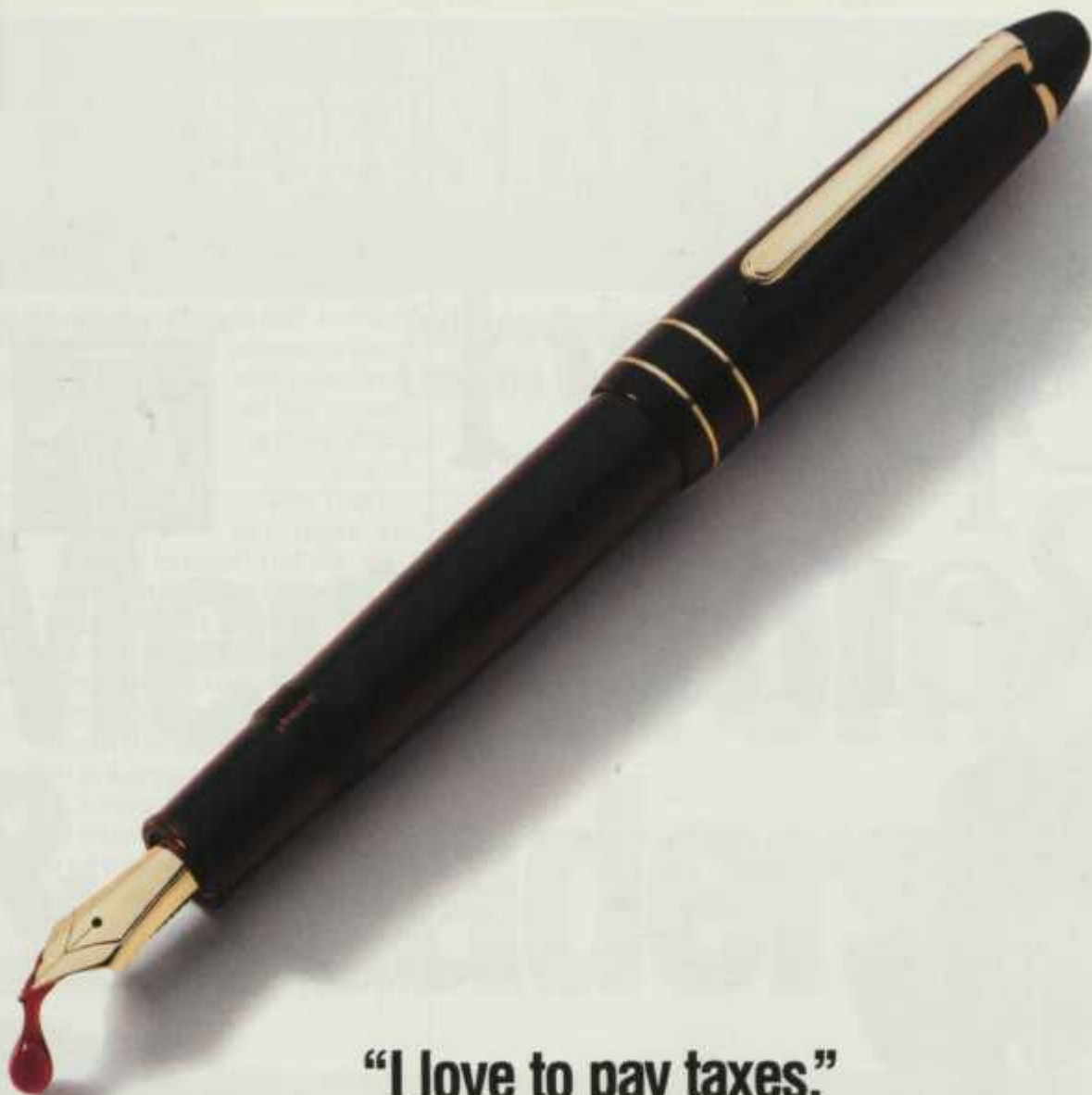
Steve DeVore, president of **The Inteligis Group** of Danville, Calif., has a product he says is "as important to the business executive as fax machines"—a long-lasting breath mint.

DeVore says you put an **IntiMint** in your mouth, between your cheek and upper gum. The mint will soften and last for about two hours.

IntiMint is a patented, all-natural, sugar-free, time-released tablet. But sweet breath doesn't come cheap. One bottle of 200 tablets costs \$30. DeVore says that's 400 hours of sweet breath.

The mints will be sold in pharmacies later this year. For now, they're available through a toll-free number: (800) 695-MINT.





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